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REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

MARCH 7, 21, 22, 25, 27, 28, 29;
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Part III—Field hearings.

CONTENTS

MONDAY, APRIL 1

RICE ISSUES

Page
Cochran, Hon. Thad, a U.S. Senator from Mississippi, opening statement 1
Melcher, Hon. John, a U.S. Senator from Montana 11
Pryor, Hon. David, a U.S. Senator from Arkansas 12
Heflin, Hon. Howell, a U.S. Senator from Alabama 27

CHRONOLOGICAL LIST OF WITNESSES

Morgan, Chip, executive vice president, Delta Council, Stoneville, MS 2
Mathews, Charlie, member, Butte County Rice Growers Association, Marysville, CA 4
Senter, David, national director, American Agriculture Movement 6
Hunt, Dale V., chairman, Five-State Rice Producers Legislative Group, Garwood, TX, accompanied by Romey Short, chairman of the board, Riceland Foods, Stuttgart, AR; Ed Wild, rice producer, Welsh, LA; Ron Harrington, president, Rice Growers Association, Sacramento, CA; and Hobson Gary, Schlatter, MS 15
Arant, Hugh M., president, Mississippi Farm Bureau, Jackson, MS, representing the American Farm Bureau Federation 30
McCann, Robert E., Jr., president, Rice Millers' Association, Alvin, TX, accompanied by Stephen Gabbert 33

TUESDAY, APRIL 2

SUGAR, HONEY, WOOL, AND MOHAIR ISSUES

Andrews, Hon. Mark, a U.S. Senator from North Dakota, opening statement 39
Hawkins, Hon. Paula, a U.S. Senator from Florida 49

CHRONOLOGICAL LIST OF WITNESSES

Inouye, Hon. Daniel K., a U.S. Senator from Hawaii 40
Matsunaga, Hon. Spark, a U.S. Senator from Hawaii 45
Hughes, Robert H., president, Hawaiian Sugar Planters' Association, accompanied by John Bunker, president, California & Hawaiian Sugar Co 50
Yancey, Dalton, executive vice president, Florida Sugar Cane League, Inc 51
Thibaut, John E., president, American Sugar Cane League of the U.S.A., Inc 53
Fischer, Thomas V., executive vice president, A.E. Staley Manufacturing Co., representing Corn Refiners Association, Inc 55
Bayh, Birch, counsel, Sugar Users Group 62
Knutson, Dr. Donald D., professor, Agricultural and Food Policy Center, Texas A&M University 65
Delauter, Robert W., secretary, treasurer-manager, Coca-Cola Bottling Co. of Portland, IN, representing the National Soft Drink Association 66
Kominus, Nicholas, president, United Sugar Cane Refiners' Association 69
Haas, Ellen, executive director, Public Voice 73
Manning, Kenneth, president, Ambrosia Chocolate Co., Milwaukee, WI, representing the Chocolate Manufacturers' Association 86
Van Leer, Tad, vice president, Van Leer Chocolate Corp., Jersey City, NJ 87
O'Connell, Richard T., president, Chocolate Manufacturers Association and National Confectioners Association 90

Page
Hiller, Robert W., president, Retail Bakers of America 91
Bushnell, John, president and chief executive officer, Holly Sugar Corp., Colorado Springs, CO 95
Cleavinger, Bill, president, Texas-New Mexico Sugarbeet Growers Association, Hereford, TX 99
Warner, Michael, legislative chairman, American Sugarbeet Growers Association 102
Shannon, Gerald W., president and chief executive officer, Minn-Dak Farmers Cooperative, Whapeton, ND 104
Grant, George, president, Idaho Sugarbeet Growers Association, Rupert, ID 107
Butts, George, president, California Beet Growers Association, Los Bancos, CA 108
Graugnard, James, president, Louisiana Farm Bureau Federation, representing the American Farm Bureau Federation 112
Lewis, Mike, Washington representative, International Longshoremen's and Warehousemen's Union 115
Harding, Ralph, adviser and consultant, Government affairs, Philippine Sugar Commission 119
Vicini, Felipe, member, International Sugar Policy Coordinating Commission of the Dominican Republic 122
Latorre, Dr. Eduardo, executive secretary, the Group of Latin-American and Caribbean Sugar Exporting Countries (GEPLACEA) 125
Ambrose, John T., executive secretary, North Carolina State Beekeepers Association and secretary-treasurer, Southern States Beekeepers Federation, Raleigh, NC 129
Robinson, Frank A., secretary-treasurer, American Beekeeping Federation, Inc., Gainsville, FL 132
Gillmor, Stephen T., chairman, board of directors, National Wool Growers Association, Salt Lake City, UT 135
Waldrep, George, corporate group vice president, Burlington Industries, Clarksville, VA 137
Eagleson, Fred, sheep producer, Buchanan, ND 139
Parker, Dr. Ronald B., Sammen Sheep Farm, Henning, NM 140
Campbell, Fred, Southwest Wool and Mohair, Eden, TX 143

WEDNESDAY, APRIL 3

PEANUT ISSUES

Heflin, Hon. Howell, a U.S. Senator from Alabama, opening statement 151
Helms, Hon. Jesse, a U.S. Senator from North Carolina 154

CHRONOLOGICAL LIST OF WITNESSES

Mattingly, Hon. Mack, a U.S. Senator from Georgia 152
Sugg, Norfleet L., executive secretary, North Carolina Peanut Growers Association, Rocky Mount, NC 155
Mobley, James Earl, president, Alabama Peanut Producers Association, and chairman, National Peanut Growers Group, accompanied by Russell Schools and Ross Wilson 156
Curry, Jimmy, secretary-treasurer, Georgia Peanut Producers Association, Shellman, GA 166
Nash, Robert L., president, Georgia Farm Bureau, representing American Farm Bureau Federation 168
Plowden, Evans J., Jr., general counsel, Southeastern Peanut Association, Albany, GA, accompanied by Lewie Helms and John Anderson 170
Jackson, J.O., president, Western Peanut Growers Association, accompanied by Leon Foote, Doyle Fincher, and William Fair 172
Reagan, Syd, general counsel, Southwestern Peanut Shellers Association, Dallas, TX 181
Phillips, A.L., president, Virginia American Agriculture Movement, Yale, VA. 183
Nickles, Hon. Don, a U.S. Senator from Oklahoma 185
Johnson, Laverne, president, Oklahoma Peanut Growers Association, Fort Cobb, OK 186
Bowen, Ross, representing Southeastern Peanut Warehousemen's Association of Georgia, Lyons, GA 187
Wampler, William C., president, American Peanut Product Manufacturers, Inc 189
Bateman, Dr. Merrill C., MJB Consultants, Inc., Provo, UT 190

Page
Palmer, Martin, president and chief executive officer, Palmer Candy Co., representing the National Confectioners Association 194
Pryor, Larry J., director of purchasing, Lance, Inc., Charlotte, NC, representing the Peanut Butter & Nut Processors Association 196

THURSDAY, APRIL 4

PUBLIC LAW 480 AND EXPORT ISSUES

Boschwitz, Hon. Rudy, a U.S. Senator from Minnesota, opening statement 201
Wilson, Hon. Pete, a U.S. Senator from California 201

CHRONOLOGICAL LIST OF WITNESSES

Bader, Dr. Kenneth L., chairman, National Commission on Agricultural Trade and Export Policy 202
Mattingly, Hon. Mack, a U.S. Senator from Georgia 206
Fischer, Robbins W., president, Soypro International, Inc., Cedar Falls, IA, and member, President's Task Force on International Private Enterprise 208
Quayle, Hon. Dan, a U.S. Senator from Indiana 214
Voss, Henry J., president, California Farm Bureau Federation, and member, American Farm Bureau Federation Board of Directors 217
Pennell, Rich, senior vice president, Harvest States Cooperatives, and chairman, trade policy subcommittee, National Council of Farmer Cooperatives 221
    Boutwell, Wayne, National Council of Farmer Cooperatives, letter dated April 29, 1985, to Senator Helms, with enclosed requested information 226
Gabbert, J. Stephen, executive vice president, Rice Millers' Association, Arlington, VA 227
Williams, Morgan, president and chief executive officer, Cooperative League of the United States of America 231
Sykes, Charles L., assistant executive director of CARE, Washington liaison office 236
Pruitt, Bishop Robert L., chairman of Lenders Energizing Neighborhood Development, presiding prelate of the 17th Episcopal District of the African Methodist Church, accompanied by Taft Holland, president, LEND, Inc 238
Snow, Robert, research and planning officer, Oxfam America, Boston, MA 240
Ainsworth, Robert, director, World Vision Relief Organization, Monrovia, CA 242
Asendorf, Roger, president, American Soybean Association, St. James, MN 247
Sears, Earl W., executive vice president, National Cotton Council, Memphis, TN 250
Hauck, Sheldon J., president, National Soybean Processors Association 252

MONDAY, APRIL 15

CONSERVATION AND RESEARCH AND EXTENSION ISSUES

Lugar, Hon. Richard G., a U.S. Senator from Indiana, opening statement 255

CHRONOLOGICAL LIST OF WITNESSES

Evans, Hon. John, Governor, State of Idaho, on behalf of the Committee on Agriculture, National Governors' Association 255
Durban, Clarence, vice president, National Association of Conservation Districts 259
Berg, Norman, Washington representative, Soil Conservation Society of America 260
Farris, Allen, chief, Fish and Wildlife Division, Iowa Conservation Commission, Des Moines, IA, representing the International Association of Fish and Wildlife Agencies 262
Gray, Farris, representing the Southern Iowa Agriculture Boosters and Council of Iowa Resource, Conservation and Development Areas 264
Sampson, R. Neil, executive vice president, American Forestry Association 270
Bethea, John, Florida State Forester, Tallahassee, FL, on behalf of National Association of State Foresters 271
Gray, Robert J., director of policy development, American Farmland Trust 273
Cook, Kenneth A., consultant in agricultural policy 275
Ellermeier, Ron, vice chairman, Nebraska Chapter, Sierra Club, Glenville, NE 282

Page

Hinkle, Maureen K., director, agricultural program, National Audubon Society ... 284
Ward, Justin R., agricultural project assistant, Natural Resources Defense Council, Inc. ... 285
Jahn, Dr. Laurence R., vice president, Wildlife Management Institute ... 286
Heller, Michael, Clagett Farm manager, Chesapeake Bay Foundation, Annapolis, MD ... 288
Budzik, Michael J., member, Ohio Wildlife Management Association, Columbus, OH, accompanied by David Risley ... 290
Lockett, James L., president, Oklahoma Farm Bureau, Oklahoma City, OK, representing the American Farm Bureau Federation ... 293
Senter, David, national director, American Agricultural Movement ... 294
Edmonds, Herb, president, National Association of Farmer Elected Committeemen, McLouth, KS ... 295
Liska, Bernard J., Purdue University, president, Institute of Food Technologists, Chicago, IL ... 299
Wheeler, Peggy, public affairs director, National Center for Appropriate Technology ... 302
Flatt, William, dean of the College of Agriculture, University of Georgia, accompanied by Rodney Foil and John Woeste ... 310
Shields, John, manager, Tennessee Valley Authority, Office of Chemical Development, Muscle Shoals, AL ... 315
Schenck, Jane, education director, Pellon Co., New York, on behalf of American Home Sewing Association ... 316
Fisher, Robroy D., chairman, Cotton Industry/Government Research Committee, National Cotton Council of America ... 318

THURSDAY, APRIL 18

AGRIBUSINESS ISSUES

McConnell, Hon. Mitch, a U.S. Senator from Kentucky, opening statement ... 325
Boren, Hon. David L., a U.S. Senator from Oklahoma ... 325
Heflin, Hon. Howell, a U.S. Senator from Alabama ... 326

CHRONOLOGICAL LIST OF WITNESSES

Johnson, Ron, executive vice president, Agrico Chemical Co., Tulsa, OK, and chairman, Agricultural Policy Committee, The Fertilizer Institute ... 326
Garrett, G.W., Alliance Agronomics, Inc., Mechanicsville, VA, and member, Agricultural Policy Committee, The Fertilizer Institute ... 330
Armfield, William S., president, National Fertilizer Solutions Association, Peoria, IL ... 332
Alter, Dr. Harvey, manager, Resources Policy Department, Chamber of Commerce of the United States, accompanied by Dr. Stuart Hardy, manager, Food and Agriculture Policy ... 339
Webster, Dean K., chairman, American Feed Industry Association, Inc., Arlington, VA ... 342
Gardner, Sherwin, vice president for science and technology, Grocery Manufacturers of America, Inc ... 344
Flatt, Lowell, agribusiness committee, Grand Forks Chamber of Commerce, Grand Forks, ND ... 347

WEDNESDAY, APRIL 24

RURAL CREDIT ISSUES

Hawkins, Hon. Paula, a U.S. Senator from Florida, opening statement ... 351

CHRONOLOGICAL LIST OF WITNESSES

Bumpers, Hon. Dale, a U.S. Senator from Arkansas ... 352
Naylor, Hon. Frank W., Under Secretary for Small Community and Rural Development, U.S. Department of Agriculture ... 354
Wilkinson, Hon. Donald E., Governor, Farm Credit Administration, accompanied by Larry Edwards, Deputy Governor and Chief Examiner, and Frederick Medero, general counsel ... 364
Locker, Dale L., director, Ohio Department of Agriculture, Columbus, OH ... 369

Page

Tubbs, Alan R., chairman, agricultural bankers division executive committee, and president, First Central State Bank, DeWitt, IA, representing American Bankers Association 372
Todd, Melvin, Jr., member, board of directors, Farm Credit Council, and member, board of directors, Farm Credit Banks of Omaha 378
Swackhamer, Gene, president, Farm Credit Banks of Baltimore, representing the Farm Credit Council 381
Jones, Corky, national president, American Agriculture Movement, accompanied by David Senter 392
Severens, Eugene, representing the Center for Rural Affairs, Walthill, NE 396
Duncan, William A., president, Mountain Association for Community Economic Development, Berea, KY, and cochair, Community Development Task Force, Rural Coalition 399
Lake, N. Rollie, president, Communicating for Agriculture, Inc., Fergus Falls, MN 402

THURSDAY, APRIL 25

GENERAL AGRICULTURE AND CONSUMER ISSUES

Wilson, Hon. Pete, a U.S. Senator from California, opening statement 407

CHRONOLOGICAL LIST OF WITNESSES

Gerace, Joseph, commissioner, Department of Agriculture and Markets, State of New York, Albany, NY 408
Glenn, Hon. John, a U.S. Senator from Ohio 410
Daub, Hon. Hal, a Representative in Congress from the Second District of Nebraska 415
Huber, Daniel R., president, Commodity Marketing Division, Cargill, Inc., accompanied by Carroll G. Brunthaver, vice president, Sparks Commodities, Inc., representing the National Grain & Feed Association 423
Botticelli, Dr. Charles R., department manager, Biological Sciences, GTE Laboratories, Waltham, MA 426
Hayden, Wesley F., legislative counsel, International Association of Fish and Wildlife Agencies 428
Trantham, Thomas J., farmer, Pelzer, SC; accompanied by Timothy Pigford, farmer, Riegelwood, NC; and Charles O. Freeman, farmer, Orrum, NC, representing the United Farmers Organization 430
Warner, Hon. John W., a U.S. Senator from Virginia 436
Trible, Hon. Paul S., a U.S. Senator from Virginia 437
Watts, George B., president, National Broiler Council 439
Craig, John D., attorney, Craig and Craig Law Corp., accompanied by John C. Butler, Jacque Butler, J.C. Butler, and Janet Butler 444
Strecker, The Most Reverend Ignatius J., Archbishop of Kansas City, KS, on behalf of the United States Catholic Conference and the National Rural Life Conference 450
Wittrock, Rev. Kenneth, Pilger, NE, representing the Lutheran Council in the USA 453
Reeves, Don, family farm consultant, Central City, NE, representing Interfaith for Economic Justice 457
Pender, John, agricultural policy analyst, Bread for the World, accompanied by Bard Shollenberger 461
Skillen, James W., executive director, Association for Public Justice 464
Delaney, Edward N., president, National Tax Equality Association 465

APPENDIX

APRIL 1 HEARING—RICE ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement 473
Morgan, Chip, executive vice president, Delta Council, Stoneville, MS, statement 473
Senter, David, national director, American Agriculture Movement, Inc., statement 475
Arant, Hugh, president, Mississippi Farm Bureau Federation and member, board of directors, American Farm Bureau Federation, statement 476
McCann, R.E., Jr., president, The Rice Millers' Association, statement 479

Page

APRIL 2 HEARING—SUGAR, HONEY, AND WOOL ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement 482
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, statement 484
Leahy, Hon. Patrick J., a U.S. Senator from Vermont, statement 484
Inouye, Hon. Daniel K., a U.S. Senator from Hawaii:
  Statement 486
  Sugar Price Support Program, reprint from Congressional Record of March 20, 1985 489
  Sugar Sickens Free Traders, article 490
  Impact of EEC Sweetener Policies on U.S. and World Producers—Summary, article 491
Matsunaga, Hon. Spark M., a U.S. Senator from Hawaii, statement 494
Hughes, Robert H., president, Hawaiian Sugar Planters' Association, statement with attached exhibit 496
Yancey, Dalton, executive vice president, Florida Sugar Cane League, statement with attached statement of Mr. Yancey in Clewiston, FL, on March 25, 1985 501
Thibaut, John E., president, American Sugar Cane League of the U.S.A., Inc., statement 510
Fischer, Thomas V., executive vice president, A.E. Staley Manufacturing Company, accompanied by Robert C. Liebenow, president, Corn Refiners Association, Inc., statement 511
Bayh, Birch, counsel to the Sugar Users Group, statement 513
Knutson, Dr. Ronald D., Agricultural and Food Policy Center, Texas A&M University, on behalf of Sugar Users Group, statement 516
Delauter, Robert W., representing the National Soft Drink Association, statement 518
Kominus, Nicholas, on behalf of the United States Cane Sugar Refiners' Association, statement with attached letter dated April 29, 1985, to Senator Andrews, in answer to questions asked at the April 2 hearing 521
Haas, Ellen, executive director, Public Voice for Food and Health Policy, statement 531
O'Connell, Richard T., president, Chocolate Manufacturers Association of the U.S.A. and National Confectioners Association of the United States, statement 533
Hiller, Robert W., president, Retail Bakers of America, statement 534
Bushnell, John L., president and chief executive officer, Holly Sugar Corporation, Colorado Springs, CO, statement 536
Warner, Michael, legislative chairman, American Sugarbeet Growers Association, statement 539
Anderson, Dale O., president, Greater North Dakota Association, Fargo, ND, letter to Patrick Maher, president, Red River Valley Sugar Beet Growers Association, care of: Senator Mark Andrews 542
Shannon, Gerald W., president and chief executive officer, Minn-Dak Farmers Cooperative, Whapeton, ND, statement 542
Butts, George E., California Beet Growers Association, Ltd., statement 546
Harding, Ralph R., adviser and consultant, Government Affairs, Phillippine Sugar Commission, statement 547
Robinson, Frank, secretary, American Beekeeping Federation, Inc., statement. 550
Gillmor, Stephen T., on behalf of National Wool Growers Association, statement 552
Campbell, Fred, Southwest Wool and Mohair, Eden, TX, article submitted by: Background and Situation Report, the Wool Act of 1954 556
Swenson, Dean, vice president, N.D. Lamb & Wool Producers, letter dated March 25, 1985, to Senator Andrews 560
Robinson, Robert B., president, Chamber of Commerce of Hawaii, statement.... 560
Pressler, Larry, U.S. Senator, letter dated April 17, 1985, to Senator Helms, with attached statement of Richard L. Adee, vice president, American Honey Producers Association, Bruce, SD 562
Gibson, Glenn, president of the American Honey Producers Association, statement with attachments 569

APRIL 3 HEARING—PEANUT ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement 576
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, statement 576
Domenici, Hon. Pete, a U.S. Senator from New Mexico, statement 577

Page
Nunn, Hon. Sam, a U.S. Senator from Georgia, statement 578
Denton, Hon. Jeremiah a U.S. Senator from Alabama, statement 579
Mobley, James E., chairman, National Peanut Growers Group, statement 579
Curry, Jimmy, secretary-treasurer, Georgia Peanut Producers Association, Blakely, GA 583
Reagan, Syd, statement on behalf of the Southwestern Shellers Association, with attached exhibit A 585
Phillips, A.L., president, Virginia American Agriculture Movement, material submitted by: 1985 Farm Bill Proposal 587
Bateman, Merrill J., president, MJB Consultants, Inc., statement 589
O'Connell, Richard T., president, Chocolate Manufacturers Association of the U.S.A. and National Confectioners Association of the U.S., statement 596
Pryor, Larry J., statement on behalf of the Peanut Butter and Nut Processors Association, with attachment 597
Graham, James A., commissioner, Department of Agriculture, State of North Carolina, letter dated April 1, 1985, to Senator Helms 606
North Carolina Farm Bureau Federation, statement 606
Ferguson, C. Wade, farmer and businessman, Emporia, VA, statement 607
Gamble, Wilbur T., interim chairman, Georgia Agricultural Commodity Commission for Peanuts, statement 608

APRIL 4 HEARING—PUBLIC LAW 480 AND EXPORT ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement 610
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, statement 611
Dixon, Hon. Alan J., a U.S. Senator from Illinois, statement 612
Quayle, Hon. Dan, a U.S. Senator from Indiana, statement 612
Bader, Kenneth L., chairman, National Commission on Agricultural Trade and Export Policy, statement 614
Fischer, Robbins W., president, Soypro International, Inc., and International Business Associates, Inc., statement with attached exhibits 621
Pennell, Rich, vice president, Harvest States Cooperatives, and chairman, Trade Policy Subcommittee, National Council of Farmer Cooperatives, statement with attachment 629
Gabbert, J. Stephen, executive vice president, Rice Millers' Association, statement 635
Williams, Morgan, president of the Cooperative League of the USA, statement 638
Sykes, Charles L., assistant executive director of CARE, statement 641
Snow, Robert, research and planning officer, Oxfam America, statement with attached appendices I and II 643
Ainsworth, Robert, director, World Vision Relief Organization, statement 650
Asendorf, Roger, president, American Soybean Association, statement 651
Barr, John S. III, representing the National Cotton Council of America, statement 655
Hauck, Sheldon J., president, National Soybean Processors Association, statement 657

APRIL 15 HEARING—CONSERVATION AND RESEARCH AND EXTENSION ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement 658
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, statement 659
Evans, Hon. John, Governor, State of Idaho, on behalf of the National Governors' Association, statement 659
Durban, Clarence, vice president, National Association of Conservation Districts, statement 662
Berg, Norman A., Washington representative, Soil Conservation Society of America, statement 664
Farris, Allen L., Iowa Conservation Commission, statement 666
Gray, Farris, representing Southern Iowa Agricultural Boosters, statement 668
Sampson, R. Neil, executive vice president, American Forestry Association, statement 675
Bethea, John, representing National Association of State Foresters, statement 677
Gray, Robert J., director of policy development, American Farmland Trust, statement 679
Cook, Kenneth A., consultant in agricultural policy, statement 687
Ellermeier, Ron, vice chairman, Nebraska Chapter, Sierra Club, statement 689
Hinkle, Maureen K., National Audubon Society, statement 691

Page
Ward, Justin R., agriculture project assistant, and F. Kaid Benfield, senior attorney, Natural Resources Defense Council, joint statement ... 700
Jahn, Laurence R., vice president, Wildlife Management Institute, statement .. 702
Heller, Michael, representing Chesapeake Bay Foundation, statement ... 705
Budzik, Michael J., representing the Ohio Wildlife Management Association and the Ohio Chapter of the Wildlife Society, statement ... 707
Lockett, Jim, president, Oklahoma Farm Bureau, representing American Farm Bureau Federation ... 712
Senter, David, national director, American Agriculture Movement, Inc., statement ... 714
Edmonds, Herb, national president, National Association of Farmer Elected Committeemen, statement ... 715
Liska, Bernard J., Ph. D., dean of agriculture, Purdue University and president, Institute of Food Technologists, Chicago, IL, statement ... 716
Wheeler, Peggy, public affairs director, National Center for Appropriate Technology, statement with accompanying amendment to 1981 farm bill ... 724
Flatt, William, dean of the College of Agriculture, University of Georgia, and chairman, legislative committee, division of agriculture, National Association of State Universities and Land-Grant Colleges, statement with attached proposed amendments for the 1985 farm bill ... 731
Tampkins, Gilbert, associate administrator, Cooperative Extension Program, Langston University, Langston, OK, statement ... 743
Woeste, John T., dean of Extension, University of Florida, and chairman, extension committee on organization and policy, Division of Agriculture, National Association of State Universities and Land-Grant Colleges, statement ... 744
Donoho, Dr. Clive, director, Georgia Agricultural Experiment Station, Analysis of the Special Grants Under Public Law 89-106 ... 745
Evans, Dr. Sidney H., director of agricultural research, North Carolina Agricultural and Technical State University, statement ... 747
Oren, Dr. John W., director of extension, and associate dean, College of Agriculture and Home Economics, New Mexico State University, statement 749
Dierks, Dr. Richard E., Commission on Veterinary Medicine, National Association of State Universities and Land-Grant Colleges, and dean, College of Veterinary Medicine, University of Illinois, statement ... 754
Shields, John T., Manager, National Fertilizer Development Center, Tennessee Valley Authority, statement ... 755
Schenck, Jane, representing American Home Sewing Association, statement ... 757
Fisher, Robroy D., chairman, Cotton Industry/Government Research Committee, National Cotton Council of America, statement ... 762

APRIL 18 HEARING—AGRIBUSINESS ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement ... 765
Wilson, Hon. Pete, a U.S. Senator from California, statement ... 765
Dixon, Hon. Alan J., a U.S. Senator from Illinois, statement ... 766
Nickles, Hon. Don, a U.S. Senator from Oklahoma, statement ... 766
Johnson, Ron, Agrico Chemical Company and G.W. Garrett, Alliance Agronomics, on behalf of the Fertilizer Institute, joint statement ... 767
Armfield, William S., 1985 president, National Fertilizer Solutions Association, statement ... 775
Alter, Harvey, manager, Resource Policy Department, Chamber of Commerce of the United States, statement with attached appendix ... 777
Lebeck, Warren, representing the National Grain Trade Council, statement ... 789
Webster, Dean R., chairman, American Feed Industry Association, statement .. 792
Gardner, Sherwin, vice president for science and technology, Grocery Manufacturers of America, Inc., statement ... 794
Flatt, Lowell, Grand Forks, ND, Chamber of Commerce, letter of April 18, 1985, with enclosed policy position on 1985 farm bill ... 801

APRIL 24 HEARING—RURAL CREDIT ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement ... 804
Dixon, Hon. Alan J., a U.S. Senator from Illinois, statement ... 805
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, statement ... 806
Bumpers, Hon. Dale, a U.S. Senator from Arkansas, statement ... 806
Naylor, Frank W., Jr., Under Secretary of Agriculture for Small Community and Rural Development, U.S. Department of Agriculture, statement ... 807

Page

Farm Credit Situation: Implications for Agricultural Policy, reprint of article from University of Missouri, Department of Agricultural Economics, Paper #1985-13, by J. Bruce Bullock 809
Wilkinson, Donald E., Governor, Farm Credit Administration, statement 818
Locker, Dale L., director, Ohio Department of Agriculture, statement 822
Tubbs, Alan, chairman, American Bankers Association, Agricultural Bankers Division Executive Committee 823
Todd, Melvin, Jr., member, Board of Directors of the Farm Credit Council and Board of Directors of the Farm Credit Banks of Omaha, statement 832
Swackhamer, Gene, president of the Baltimore District Farm Credit Council and chief executive officer of the Farm Credit Banks of Baltimore, statement 839
Jones, Corky, president, American Agriculture Movement, Inc., statement with attachments 845
Severens, Eugene, Center for Rural Affairs, Walthill, NE, statement with attachment 849
Johnston, Dick, president, Missouri Farm Bureau Federation and member, American Farm Bureau Federation board of directors, statement 852
Duncan, William A., president, Mountain Association for Community Economic Development, statement 853
Lake, N. Rollie, president, Communicating for Agriculture, Inc., statement with attachment 856
Rohner, Ralph J., the Columbus School of Law, the Catholic University of America, on behalf of the American Meat Institute, statement 864
American Feed Manufacturers Association, statement 866
Lerza, Catherine, associate director, Rural Coalition, statement with accompanying attachments 1-4 868
Water Quality Association, statement 876

APRIL 25 HEARING—GENERAL AGRICULTURAL ISSUES

Zorinsky, Hon. Edward, a U.S. Senator from Nebraska, statement 880
Dixon, Hon. Alan J., a U.S. Senator from Illinois, statement 880
Glenn, Hon. John, a U.S. Senator from Ohio, outline paper submitted by: Fiscal year expenditures, fiscal year 1986 to fiscal year 1990 880
Mattingly, Hon. Mack, a U.S. Senator from Georgia, statement 882
Gerace, Joseph, commissioner, New York State Department of Agriculture & Markets, statement 885
Brunthaver, Carroll, and Daniel Huber, representing National Grain and Feed Association, statement 888
Botticelli, Charles R., Ph.D., manager, Department of Biological Sciences, GTE Laboratories, Waltham, MA 895
Hayden, Wes, legislative counsel, International Association of Fish and Wildlife Agencies, statement 898
Pigford, Tim, United Farmers Organization, Bladen County, NC:
    Statement 899
    Material submitted by Mr. Pigford and Mr. Freeman:
        Emergency farm debt repayment proposal 901
        Statement of Wayne Stone 903
        Statement of Shannon Forbis 904
        Statement of James E. Ely 905
        Statement of Anne Mae Chavis 906
        Statement of John Chaney 906
        Statement of James E. Wall, Jr 907
Watts, George B., president, National Broiler Council, statement 907
Craig, John, material supplied by 909
Strecker, Most Rev. Ignatius J., archbishop of Kansas City, KS, on behalf of U.S. Catholic Conference and National Catholic Rural Life Conference, statement 917
Whittrock, Rev. Kenneth, representing Lutheran Council in the USA, statement 925
Lutheran bishops, statement on agri-community crisis 927
Reeves, Don, representing Interfaith Action for Economic Justice, statement with attached appendices A-F 929
Pender, John, agricultural policy analyst, Bread for the World, statement 945
Shollenberger, Bard, on behalf of Bread for the World, statement 950
Skillen, James W., executive director, Association for Public Justice, statement 955

Page

Delaney, Edward N., president, National Tax Equality Association, statement. 958

Diehl, Dave, chairman, Michigan Agricultural Commission, Dansville, MI, letter dated March 4, 1985, to Senator Levin 961

Illinois South Project, Herrin, IL, statement 962

United Farmers Organization, statement to the South Carolina Delegation, January 14, 1985 964

Written questions from Senators Hawkins and Zorinsky to Hon. Donald Wikinson, Governor, Farm Credit Administration and answers thereto........ 967

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Rice Issues

MONDAY, APRIL 1, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, at 9:25 a.m., in room SR 328-A, Russell Senate Office Building, Hon. Thad Cochran presiding.

Present: Senators Cochran, Zorinsky, Melcher, Pryor, and Heflin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will please come to order.

Today the Committee on Agriculture, Nutrition, and Forestry continues its hearings on programs which will be contained in the 1985 farm bill. Today we are examining specifically the rice program.

Rice ranks ninth among major field crops in the United States and accounts for about 5 percent of total value. The total U.S. rice crop is produced in six States. Although rice production is less than 2 percent of the total world production, here in our country it accounts for 18 to 25 percent of our trade. So our ability to move rice into world markets is very important, not only to the U.S. rice industry but to our Nation's economy.

Demand for rice grew rapidly during the 1970's, but so did production. Now demand has declined sharply. In addition to world demand declining in recent years, Thailand has overtaken the United States as the world's largest exporter of rice. In the last 3 to 4 years, U.S. exports have fallen by about 33 percent while Thailand's has increased by more than 25 percent.

The loss of foreign markets has contributed greatly to the rise in program costs—from one-tenth to over nine-tenths of the value of U.S. production. Commodity Credit Corporation net outlays for the Rice Support Program for fiscal years 1982 through 1986 are estimated by the Department of Agriculture to be $2.4 billion. That is compared with $96 million from fiscal years 1978 through 1982.

The distribution of world rice production and trade indicates that small swings in foreign demand can exert relatively quick and strong impacts on the U.S. Rice Support Program. As world rice production increases, maintaining traditional levels of exports becomes very sensitive to price. This development raises questions about the policies both of our competitors and of our Government.

The task of this committee is twofold, in my judgment. One is to develop an overall program that will help bring profits to producers and, at the same time, restore competitiveness in the U.S. rice industry.

I want to thank all of our witnesses for responding to the invitation to be here today and to participate in this hearing. I look forward to hearing what each of you will say and having the benefits of your suggestions and observations about the appropriate action that this committee should take this year in writing a 1985 farm bill.

We have a number of witnesses scheduled to testify. We would like to call the first three witnesses as a panel to present their testimony to the committee.

We have listed Chip Morgan, who is executive vice president of the Delta Council of Stoneville, MS; David Senter, who is the national director of the American Agriculture Movement in Washington, DC; and Mr. Charles Matthews from the Butte County Rice Growers Association in Marysville, CA.

If you could come forward and take your places here at the committee table, I would ask you to make your statements and then we will have a chance to have questions. We have copies of written statements, which we thank you for. We will include those in their entirety in the record.

Chip, you may proceed.

STATEMENT OF CHIP MORGAN, EXECUTIVE VICE PRESIDENT, DELTA COUNCIL, STONEVILLE, MS

Mr. **Morgan**. Thank you, Mr. Chairman. Thank you for allowing us to appear before you today.[1]

My name is Chip Morgan. I am executive vice president of Delta Council, which is an areawide producer organization in northwest Mississippi, where we produced a little more than 200,000 acres of rice last year.

Rice is a very capital intensive industry in the Mississippi Delta. In fact, it is probably the most capital intensive agricultural commodity that we grow in the Mississippi Delta at this time.

Mr. Chairman, there is no more classic example of our problem in American agriculture than that which is illustrated by the current status of rice producers in this country. Although U.S. rice production represents ony a fraction of world rice production, we have traditionally had a very strong position in the export markets. However, in recent years, our position in the export market has reduced by approximately 50 percent while our major competitors, as you stated, such as Thailand, have almost doubled their share of export markets.

It is our opinion that this decline in U.S. exports of rice is not traced back to a farm or rice producer in Mississippi or Louisiana or Arkansas or California or Texas but, instead, that the blame for the disastrously low levels of farm income on rice farms can be directly traced to our Government's inability to meet the challenge of our foreign competitors in the world marketplace.

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[1] See p. 473 for the prepared statement of Mr. Morgan.

In recent years, we have seen our foreign competitors designed government-to-government contracts as trading instruments to preempt the export of U.S. rice to our traditional customers in the Mideast, Western Europe, and South Africa. An example or one illustration of our problem in rice exports occurred when the administration refused GSM-102 export credit guarantees to Nigeria, which is one of the largest rice consuming nations in the world. They refused this GSM-102 export credit due to Nigeria's failure to sign an International Monetary Fund Agreement being supported by the U.S. Government.

At that time, Mr. Chairman, rice producers throughout this country made an urgent appeal to the administration and the Department of Agriculture to follow through with this export of American rice. However, because of a major decision on the part of our Government, which could have had a positive effect on all rice producers in this country, this appeal was not heard.

I would further say that we are operating in an environment that is less attractive to rice producers in terms of trying to produce rice than we have lived in during my entire lifetime due to the high capital costs and certainly the very marginal income that can be derived on a rice farm, even when you do not have land costs and include overhead management which is certainly a big line item in rice production.

Any farmer, especially a rice farmer, would prefer to gain his income in the world marketplace, and we have no apology at this time to you gentleman, who offered us the opportunity to be here today, relative to the critics of the Agricultural Act of 1981 since it is our belief that this program operated exactly as it was designed. Actually, the program provided the only real farm income, and that is not to be confused with profits, during a period when the U.S. share in the world agricultural trade declined at a level that is almost consistent with the increasing costs of the farm program which you mentioned earlier.

The annual cost of maintaining U.S. agricultural production during the last 4 years at a level which has allowed the U.S. defense policy, national security interests and other foreign relations matters to utilize agriculture as a bargaining tool, amounts to only one-half of 1 percent of the Federal budget, and less than 1½ percent of the highly publicized Federal deficit.

In conclusion, Delta Council would like to urge the leadership of the Senate Agriculture Committee to point out the deficiencies of our agricultural export programs which have simply not been utilized to the benefit of American agriculture. We would also ask you to continue to support a Commodity Credit Corporation Loan Program and target price mechanisms.

The CCC loan is essential in our judgment for the orderly marketing of our crops, and especially rice, during those periods when factors totally unrelated to the individual farming operation caused market prices to sustain at low levels.

We should state that it is our belief, Mr. Chairman, that there is no farm program that can be designed by this committee that would be successful in the absence of an American agricultural policy that includes a commitment by our Government to move the U.S. agricultural products from the foreign relations bargaining table into the competitive world marketplace.

I have submitted a formal statement for the committee to review, Mr. Chairman. We appreciate being here today.

Senator COCHRAN. Thank you, Chip, for your testimony, for being here and providing us with this information.

Mr. Mathews, why do you not go ahead and proceed at this point, and we will hear from Mr. Senter later.

STATEMENT OF CHARLIE MATHEWS, MEMBER, BUTTE COUNTY RICE GROWERS ASSOCIATION, MARYSVILLE, CA

Mr. MATHEWS. Thank you, Mr. Chairman.

I am Charlie Mathews, a member of the Butte County Rice Growers Association. Our cooperative represents approximately 350 rice producers in central California. Our organization, the first rice oriented cooperative in California, was formed in 1914. I am here today as an authorized representative of this organization.

Our memberships' experience in rice farming is substantial as most are family operations which have been farming rice well before farm assistance programs were in effect and lived through the years of the development and implementation of these programs.

We wish to submit this testimony which offers proposals within the framework of the existing Farm Program and appreciate your consideration of our market-oriented program.

On target prices, we would like to see them set at 90 percent of the total U.S. economic rice production cost, decreasing from current levels at no more than 10 percent per year.

Target price, for purposes of determining deficiency payments and release of Government-owned stocks into the market, should be based on the cost of production. Target price based on a market average or a percent of the loan rate as is currently proposed by the administration may at times be higher than the total economic cost of production or possibly lower than the total cash cost of production. It is concluded that setting the target price at 90 percent of the total economic U.S. rice production cost will sufficiently stabilize producers yet discourage production simply to acquire program benefits.

Market prices at 115 percent of the total economic U.S. rice production cost will cause the orderly release of any Government acquired stocks into the market. At this market level, prices will be 28 percent above the target price, as recommended, which will allow producers to operate profitably without support.

Due to the severe economic consequences of rapidly reducing the current target price, we recommend a maximum 10 percent per year reduction in target price until 90 percent of the total economic U.S. rice production cost is achieved.

We believe loan rates should be set at 85 percent of the market average for the 24 preceding months, adjusted monthly. Minimum loan rate shall not be less than 75 percent, nor greater than 90 percent of the total economic rice production cost. Repayment of interest on default should be required.

This concept provides a loan rate that will be responsive to short-term market changes and yet provide a stabilizing force tied to cost of production. Loan rates tied entirely to market averages provide no long-term floor price in a down market and may move loans higher than the total cost of production in an up market.

It is concluded that the loan rate should not be less than 85 percent of an average market price when the interest repayment requirement is added. It is estimated that a minimum loan rate of 75 percent of the total economic rice production cost, less interest on defaults, will merely cover direct cash costs of production. A maximum loan rate of 90 percent of the aforementioned cost will reduce the Government's financial exposure and not allow producers an economic profit through loan proceeds.

The minimum loan rate is extremely important in the context of reality as it allows financial institutions and growers to assess a bottom line risk factor which will provide a stabilizing force in the rice industry, which is sorely needed.

The interest repayment requirement lessens the program benefit and financial exposure to the Government. Most importantly, it provides the producer incentive to actively market his rice production. This provision also will allow the market price to vary below the established loan rate by at least the perceived interest loss and thus allow a greater range of movement in the average market price of rice.

We believe that no limit should be placed on commodity loans.

The purpose of the loan is to stabilize the market, and the producer. If the loan rate is allowed to be responsive to the current market conditions as proposed here, a limit is not necessary. Also, the repayment of interest requirement is actually consistent with a true loan and should be treated as such until default.

The market responsive loan rate structure, repayment of interest, and the maximum limit on loan rate should prevent production exclusively for the loan and default privileges.

On payment limitation, the assumption that limitation of payments will limit Government spending is erroneous. It will only restructure production in an inefficient manner.

Payment limitations have the tendency to prescribe the size of a farm unit which artificially alters the economic structure of agriculture. Lower payment limitations tend to favor smaller—perhaps less efficient—producers, thus holding costs of production higher and less competitive. Under this proposal, more efficient units will lower total economic U.S. rice production cost and under our target price proposal, lower the target price and minimum loan rate.

We believe the Secretary should have the authority to require acreage limitations, set-aside, not to exceed 25 percent of base acreage.

Control of acreage by the Secretary provides the major tool for fine tuning supply and controlling Government exposure in a down market. Set-asides in excess of 25 percent tend to decrease efficiency, increase the total economic rice production cost, and have a negative impact on the efficient market oriented restructure of agriculture.

On the two-price system, we believe that import controls and export subsidies are necessary for the successful implementation of a two-price system, as demonstrated by Japan and Taiwan. Our current administration does not appear to be in favor of these basic requirements because they would raise the price to domestic consumers and export subsidies are contrary to a free-trade concept. At this time, we do not believe the two-price system will work.

We believe a separate loan and target on basis of class is not feasible. We believe the loan rates should be based on class and target price should be based on the total cost of production.

Since all rice-producing States now have the capability to produce long, medium, and short grain rice in response to the perceived market, actual market demand will be the price controlling factor. With loan rates following market trends, there may be times when rates for classes will be different. The Secretary of Agriculture should have the authority to set the differentials as they have in the past between short, medium, and long grain rices as long as the weighted average loan rate equals our proposed loan rate.

On the export programs, we believe that a mandatory provision of the program should be that the export programs should be aggressively pursued in all areas, including direct and/or guaranteed credit, blended credit, Public Law 480 type programs, export PIK's, exemption from cargo preference, reduction in trade barriers, foreign market development and any other methods you could help us with.

The world market in which the rice industry is being forced to compete is not a free market. Thus, the cornerstone of the U.S. agricultural policy must be to assist our farmers to the degree necessary to compete on equal terms in the world markets.

In summary, the elements of this proposal provide a responsively market oriented program which will provide the urgently needed stabilizing force for the rice industry and related agribusiness sectors. We believe these provisions implemented over a 6-year period will allow the transitional time necessary to adjust to competition in a free market, should one come into existence.

Obviously, the program outlined relies heavily on the total economic U.S. rice production cost and yield data prepared under supervision of the Secretary of Agriculture. It is our opinion that previous estimates have been a fair representation of reality and that if computation of this statistic remains in the same format, it will meet the need intended.

Thank you, Mr. Chairman.

Senator Cochran. Thank you, Mr. Mathews.

David Senter.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT

Mr. Senter. Thank you, Mr. Chairman.

I am David Senter, national director of the American Agriculture Movement. We appreciate very much the opportunity to appear before this committee today.[1]

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[1] See p. 475 for the prepared statement of Mr. Senter.

Our No. 1 objective in any farm program is to ensure a reasonably priced, dependable supply of food and fiber to the American consumer. For this goal to be met and maintained, we must have a profitable production sector of agriculture. As everyone is aware, the agricultural sector is in serious financial condition with much of it in almost a state of collapse.

We find a lot of problems throughout the rice-growing areas of this country. I recently made a trip to California where there were a lot of problems from the imports of rice coming into the United States at the expense of the American farmers. This particular instance is that in the seventies the United States spent millions of dollars developing a commercial rice industry in Thailand, and now a lot of subsidized Thailand rice is coming back into the United States, in many cases 30 percent below the domestic price.

The continued erosion of our rice industry in the name of lower costs to consumers can only result in higher, more volatile costs over the long term. This market-oriented philosophy we have been moving toward has cost an unnecessary amount of farm failures, depletion of the water and soil resources, excessive budget outlays and the destruction of many agribusiness and rural communities. We find ourselves exporting our equity in land, equipment and natural resources in the form of cheap rice.

In a program with payment limitations in place, producers cannot be protected with target prices, because too big a percent of the producers are locked outside of a program unable to get protection because of these limitations. Because of that, the American Agriculture Movement supports a program built around a loan rate with that loan rate being set at least at full cost of production, which would be approximately 70 percent of parity. We also believe that the 9-month loan should be replaced with a 36-month loan where the farmers can use that regular loan program as a reserve and as a marketing tool.

We believe that the program should have mandatory supply management so that each producer according to their actual proven yield in the last 3 years would be given an amount that they could produce year in and year out to change according to our inventory stock and our export and domestic demand.

We also believe that we should stop allowing imports to come in below the domestic price, and we should use export subsidies, whatever methods are necessary, in order to continue to export the product into world markets.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Mr. Senter.

In connection with the rice program that we will be including in the 1985 farm bill, I wonder what your reaction would be to a suggestion that I have heard that it might be appropriate to have separate rice programs for different classes of rice.

Does your organization have any position on that? I ask each one of you to respond to that.

Mr. MORGAN. Senator, Delta Council does not have an official position on the resolution of that particular issue, but I would not feel there would be anything particularly offensive about it.

Senator COCHRAN. Mr. Mathews.

Mr. **MATHEWS**. From California we have historically been excluded from the long grain market. We have now developed varieties we can compete with in the long grain market, and we believe there should be no distinction on target prices by class because all States now have the equal opportunity to produce what the market would perceive.

Senator **COCHRAN**. Mr. Senter.

Mr. **SENTER**. I believe that if you move into a two program policy for rice that it could, in effect, complicate matters in States where you produce different classes of rice. I know that on cotton we have upland and long staple. We have had different programs and it has worked very well.

So we would be willing to look at whatever options come forward to see what would better serve the members because we are kind of reserved on that at this point.

Senator **COCHRAN**. Are there any technological developments that you are aware of that could be coming into utilization during the next few years that would affect the provisions of any rice program that would be included in the 1985 farm bill? I have in mind any developments that might dramatically change yields or otherwise affect costs of production or the industry in any dramatic way.

Mr. **MORGAN**. Senator, there are new genetic varieties of rice that I am sure you are aware of relative to high yielding varieties which will enable farmers, rice farmers, to become much more efficient in terms of yield per acre. However, because of the depressed state of the rice economy in our area and due to the lack of real aggressive export initiative for rice on the part of the U.S. Government, our rice production has actually reduced during the last 2 years. Even though people during the seventies had invested large sums of money in developing their land for rice production, which is highly capital intensive in terms of building and equipment and infrastructure, we have reduced our acreage in rice.

Senator **COCHRAN**. Mr. Mathews.

Mr. **MATHEWS**. The major component of cost would be both the yield and the total dollar cost per acre. In California in the last 7 years, we have gone from the middle fifties up to the low seventies in yield per acre which has given us a lower production cost per acre, even though some of our costs have gone up dramatically. The South, the only way I can speak of it is by reading the publications. Since they are now going into the same short stature rice that gave us the benefits of the last 5 years, I would expect that their yields will go up faster than their costs and their production costs will be able to come down also.

Senator **COCHRAN**. Mr. Senter.

Mr. **SENTER**. We are not aware of any major changes on the horizon that would drastically change the yields of situations that the rice farmers are in. In our opinion, the thing that is changing the fastest and having the most destructive effect on the farmers is the import situation, and it appears that we are going to continue to see increases in imported rice coming in below the domestic price, which is actually increasing our costs of our price support programs.

So it appears that on the import side we are going to have to take a very close look at what kind of steps need to be taken to soften that impact because that appears to be adding a lot of additional stress into the rice-growing areas that should not be there.

Senator COCHRAN. I am going to ask you, as my final question, if you are familiar with a proposal that is referred to by some as a marketing loan program? This is a program that would include a nonrecourse CCC loan just as in the current price support programs, but the repayment of the loan would be at the lower of either the loan or the world price. The objective of the program would be to make U.S. farm products competitive in all trade, both domestic and international.

This proposal would be designed to neutralize subsidies but also allow for overvaluation of U.S. dollar in trade. Another feature would be the elimination of benefits that could accrue to producers who remain outside Federal programs to avoid acreage reduction requirements.

Can this proposal, in your judgment, be incorporated in a farm bill in such a way that it would provide an improvement or an alternative to current programs?

Mr. MORGAN. Senator Cochran, we have studied this proposal quite closely and actually had a number of meetings among our Farm Policy Committee at Delta Council relative to this proposal. I would say at this time if this proposal were brought forth by this committee, or other Members of Congress, that we would certainly be supportive of it as a component of a 1985 farm program, looking at legislation. However, not at the exclusion of the other parts of the program, nor do we feel that by incorporating this feature into the program should we limit program benefits of other parts of the program.

So I would have to say until we see the numbers and the exact proposal and how it would be formulated that we would reserve a right to study it in that regard at that time. But I think it is a very positive move as long as it is not to the exclusion of the other parts of the program.

Senator COCHRAN. Mr. Mathews.

Mr. MATHEWS. Our organization has not studied it like the former man testifying, but our conclusion is that this is a way to help in the export market, that we would see some positive benefits from it.

Senator COCHRAN. Mr. Senter.

Mr. SENTER. We have some concerns about the payment limitation as to whether or not——

Senator COCHRAN. There would be no payment limitation.

Mr. SENTER: There would be no limitation in going in that?

Senator COCHRAN. As I understand it.

Mr. SENTER. We would have to deal with the cost of the program similarly to how we deal with target payments. We have a question that would this materially allow foreign customers that can pay for products to continue to buy them below the cost of production. We look at this and feel like that through the different blended credits in all kinds of program that we have that we can structure a program where we can assist Third World countries that cannot pay for the product. We have some concerns if we want to continue to subsidize the countries that can afford to pay a fair price for the rice, if we want to continue to sell it to them below the cost of production, which recovers less dollars back into the U.S. economy and add to the trade deficit and a whole host of things. We do have some concerns along those lines.

Senator COCHRAN. Senator Melcher.

Senator MELCHER. I am going to ask all three to consider something, but you will have to bear with me. I am not particularly knowledgeable about the problems of rice producers nor am I knowledgeable about the sales of rice domestically or abroad.

But all three of you have touched on the need for foreign markets and utilization of rice abroad. I would like to have you consider this. If you could design a law that permits the donation or the barter or the sale of rice abroad, country by country, on an individual package that could be 1 year or 2 years or 4 years, and all of the options would be available—it could be donation, it could be barter, it could be reduced price, any kind of terms and conditions, in other words. It could be done government to government or through the private voluntary organization. Each movement would have to be looked at and approved by AID and Agriculture, and it could be as flexible in any category of those that I have outlined.

Would that be helpful?

Mr. MORGAN. Senator Melcher, yes, sir, I think it would be very helpful. I think there would need to be in the rice industry some consideration given to the domestic millers and the domestic marketplace relative to this, because they are certainly suffering quite a bit under the situation of current economic circumstances of the rice industry as a whole also.

However, some type of arrangement like this would represent a signal that we have talked about in earlier hearings to the marketplace, especially in rice, where there is a very limited capability among our foreign competitors, Senator Melcher, due to their limitation of being able to store rice.

We have the greatest storage capacity of any of our competitors, so they must move a large quantity of their rice during that crop year. If we did something like you are proposing, certainly it would put more pressure on them to find a more economic crop possibly to grow where they would not have the storage problems that they would have with rice.

Mr. MATHEWS. First off, I am a farmer. I am not a marketer. But since my livelihood is dependent on the marketing, it has been my understanding that all of our competitors deal primarily on a government-to-government basis in selling rice.

Also, at least in California, 70 to 80 percent of our rice is exported, so the export market is truly our livelihood.

The answer to your question, I think, would be very positively, yes, from our side, that anything that we can do to become more competitive where the governments get involved in the barter and sale and donation on a government-to-government basis or trader-to-trader basis would be a very good tool for our industry.

Mr. SENTER. Senator Melcher, we would be very supportive of that kind of approach, particularly because you are looking for more of a long-term type buying arrangement. We have felt for quite some time that a lot of our customers should more or less turn in orders on a year-to-year basis about what they felt like that they would need to purchase during a growing year, instead of letting us store it free, and going through all of the problems that we have in trying to decide what our export demand is going to be. So we would be supportive of that kind of approach.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **Melcher**. There would be one added feature, which I forgot to mention, and that is that in the case of a private voluntary organization, such as CARE, CRS, or what have you, or in the case of very poor governments, or governments absolutely without funds, part of the commodity could be monetized on the market in that particular country.

In other words, if you took some storage costs, or packaging costs, or what have you, you could raise funds to do what has to be done by selling part of the commodity on the open market in that particular country.

What I have described to you is section 416 of the current law that affects only dairy products, and as of a year ago, wheat. The reason I asked you that question is because it has been my judgment that perhaps in this farm bill we would broaden the commodities available for that section of the law, 416, to perhaps include rice and corn and soybeans, and maybe even sorghum, because several of you, or maybe all three of you mentioned Public Law 480.

Public Law 480 has been very successful in terms of reaching humanitarian goals, and indirectly broadening the market for U.S. commodities.

Under Public Law 480, over the years, we do have certain regulations, and restrictions, that Congress has imposed. The agencies have had to draw the regulations, but we cannot blame the regulations on the agencies, because Congress has modified the law several times. It is not quite as flexible a law as people would like to have it.

Section 416 may fill the gap in a lot of instances where more flexibility is needed. Further, section 416 is directly related and more strongly related to developing trade for the future.

The multiyear concept is very significant. Almost all of the current programs are for less than a year. They might overlap over into 18 months in Public Law 480, but by and large they average out to about 10 or 12 months duration, and then the application has to be renewed. That really does not satisfy the market development that is necessary. There must be continuity of the commodity being available, and people in the foreign country knowing that it is available, and having access to it at a price that they can afford, or by donation, or for barter.

This is something that I will try to get in the final version of the bill. I know the chairman's bill addresses this problem, too. So I believe it might be a forward step.

Thank you very much.

Senator **Cochran**. Thank you, Senator.

Senator Pryor.

STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator **Pryor**. Thank you, Mr. Chairman.

The rice industry is very critical to our State, and I would like to first say that I think all of us know that we only have about five States that are producing rice. There are some other States that have small quantities of rice produced, but I think that especially this year, in drafting this particular legislation, that it is going to be tedious, it is going to be emotional, controversial, and very complex, on whatever we decide concerning a rice title for the 1985 farm bill.

I think it is going to be impossible to satisfy all interests.

Before we start the markup of this bill, I would hope that the rice industry might get together and see if they could not agree on a proposal that we can sell and meet the needs of the rice industry.

Rice is a very unique crop. We have tremendous problems with surplus, and I am just hoping that we can somehow have a meeting of the minds with all of our interested parties. We are all interested in the same thing. But because we only have 5 States, that is 10 Senators to speak for the rice industry out of 100, we are going to need not only all 10 of these Senators, but we are going to need those 10 Senators working on behalf of the rice industry.

If we can proceed with a united effort, it would mean very much to our rice program and rice industry.

Second, every time we get together for any consideration for not only a rice section of an agriculture bill, but any crop that depends upon exports, we automatically turn to the concept of Public Law 480, and every time we do this, I always hear the same argument. Many of those countries that we want to do business with, and that want to do business with us under Public Law 480 or other programs, just do not have the storage. I hear storage or lack of it each year that I am a member of this committee.

I just wonder if anyone is here from the USDA, or possibly from the Foreign Agriculture Service?

Senator **Cochran**. We have had them testify before the committee at earlier hearings, but we have not made a requirement that they furnish a representative at each hearing. We have had, of course, in the opening hearing, the Secretary of Agriculture himself, accompanied by members of the Department, who will be working with the Congress in the writing of the farm bill.

I do not know whether we have anybody or not here today. We will get them to the phone, if you want to talk to them.

Senator **Pryor**. Maybe a paragraph will do, at this point, or a relative point in the record, on what we have done in that regard.

It is my opinion that in the past 4 years we have seen our foreign aid program increase by 158 percent. We have seen military grants increase to foreign countries about 520 percent, if this year's proposal is accepted, and I would think that some of those dollars could go to these countries that we want to do business with, and build them some storage. Let us have the storage issue solved. Let us possibly build our own storage overseas for our products, so we might sell these products.

I do not think we have been very aggressive and I think it could be dollars well spent. I think it would be better to spend these dollars to store our grain, so that they could buy grain from us rather than sending them so many weapons.

Frankly, I think we are sending too many countries too many weapons that will possibly come back. We are going to be faced with that problem in the future. But I think we ought to consider something to address the storage issue.

The third point I would like to mention is the issue of cargo preference. I think this is certainly an obstacle that we are facing today.

I wonder, Chip, if you mentioned that in your statement, and if so, if the Delta Council has a position on the cargo preference matter at this point.

Mr. **MORGAN**. No, sir, Senator, we did not mention it, and we do not have an established position on that relative to us.

Senator **PRYOR**. Mr. Senter, I wonder if your organization has a position?

Mr. **SENTER**. We do not have a position at this point. We know in using Public Law 480 that it creates real problems in using the program to export.

We also, I guess, have some concerns about the availability of U.S. flagships to carry our products. There are ony 16 ships flying the U.S. flag, and Russia has got 600. We have got some problems. If we are ever embargoed against shipping, we have got some problems. We are not even going to be able to haul what we export.

So, I think we have been backed up looking at the whole picture. We know we have got some problems in agriculture using that law, but we do not want to increase the problems and finish doing away with our maritime fleet here in America. So at this point we have not taken a position on it, but we are very concerned on both aspects of it.

Senator **PRYOR**. Senator Boren is the chief sponsor, and I am one of the cosponsors of legislation which been introduced that addresses the cargo preference problem. I hope the three of you, and the other organizations that will testify this morning, will look at this legislation. If you have any suggestions, we certainly are open to them. We think it is a problem that presents a lot of obstacles to our hopes of increasing our export markets.

Mr. Chairman, I have talked too much, and asked too many questions, and we have got a lot of witnesses. Maybe I can ask the next witnesses a few questions.

Thank you.

Senator **COCHRAN**. Thank you, Senator.

Senator Zorinsky.

Senator **ZORINSKY**. Thank you, Mr. Chairman.

I ask unanimous consent that my statement be placed in the record.

Senator **COCHRAN**. Without objection, it is so ordered. It will be included in the record.[1]

Senator **ZORINSKY**. I want to welcome these gentlemen.

Dave, how do you feel about the administration's proposal for the rice program?

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[1] See p. 473 for the prepared statement of Senator Zorinsky.

Mr. SENTER. We are not supportive of the administration's proposal for rice, or any of the other commodities, as far as that goes. We believe that if their proposal is put into law, that it is basically a blueprint for corporate takeover of our food production, because when you go to talking about lowering the price, and family farmers are going out of business because of cheap prices now, the only option is that the Tennecos and those kinds of corporations will be the ones that will be able to come in through the tax loopholes, and longer nonfarm income through agriculture, whether it is a profit or loss situation, and get into being the basic influence in food production. So, we are very, very much opposed to their proposal.

Senator ZORINSKY. Has Nebraska's constitutional amendment resolved any of the problems of corporate buying of agricultural lands?

Mr. SENTER. It certainly resolves some of the problems, but you still have to deal with the U.S. Tax Code that provides all of the loopholes for investors, and for nonfarm income to be laundered through agriculture.

My understanding is, from the figures that I have seen from the Joint Economic Committee, and others, that something over $4 billion was written off last year through taxes that should have been paid through operators actually farming for a loss, and we are proposing a $20,000 limitation be put on the amount of nonfarm income that can be written off through agriculture in any given year, to start pugging these loopholes.

In our opinion, land values, there are just a whole lot of problems we have suffered in agriculture that have been brought about through the Tax Code, and it has unfairly put family farmers at a disadvantage in trying to compete.

Senator ZORINSKY. Thank you.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you all for being here, and being our lead off panel for our rice hearings.

Our next witness is Dale Hunt, who is chairman of a Five-State Rice Producers Legislative Group from Texas. He is accompanied this morning by Romey Short, chairman of the Board of Riceland Foods, Stuttgart, AR; Ed Wild, who is a rice producer from Welsh, LA; Ron Herrington, president of the Rice Growers Association of Sacramento, CA; and Hobson Gary, from the great State of Mississippi.

We appreciate your all being here this morning to be a panel before the committee.

Mr. Hunt, we have your statement that has been prepared and submitted to the committee. We hope that you will be able to make summary comments, summarizing some of your views for the committee. This will all be put in the record in its entirety, together with the addendum that accompanies your statement.

We welcome you to the committee, Mr. Hunt, and invite you to proceed as you wish.

STATEMENT OF DALE V. HUNT, CHAIRMAN, FIVE-STATE RICE PRODUCERS LEGISLATIVE GROUP, GARWOOD, TX, ACCOMPANIED BY ROMEY SHORT, CHAIRMAN OF THE BOARD, RICELAND FOODS, STUTTGART, AR; ED WILD, RICE PRODUCER, WELSH, LA; RON HARRINGTON, PRESIDENT, RICE GROWERS ASSOCIATION, SACRAMENTO, CA; AND HOBSON GARY, SCHLATTER, MS

Mr. Hunt. Thank you, Mr. Chairman.

I was not certain if the addendums had been submitted. I have other copies of them here should they be needed.

Mr. Chairman, members of the committee, I am Dale Hunt, a rice producer from Garwood, TX, and past president of American Rice, Inc., a Texas-based agricultural marketing cooperative.

In November 1984, I was nominated to the 35-member Agricultural Trade and Export Policy Commission by the House of Representatives and approved by President Reagan. Since 1980, I have been a member of the Five-State Rice Producers' Legislative Group, an ad hoc committee which I now chair.

This group is composed of producers and/or representatives of producer organizations from the five major rice producing States—Arkansas, California, Louisiana, Mississippi, and Texas. I would like to introduce those representatives from each State that are with me here today. Beginning on my immediate left, Romey Short from Arkansas; Ron Harrington from California; Ed Wild from Louisiana, and Hobson Gary from the great State of Mississippi, Mr. Chairman. These representatives that I have just introduced are all farmers actively engaged in rice production. They are not salaried management of any cooperative corporation or association or any other private company engaged in the marketing or milling of rice. We have a list of all of the representatives of our group as of March 20, 1985, attached as exhibit 1.

[The following material was received by the committee:]

[Exhibit 1]

Roster of Members, Five State Rice Producers' Legislative Group

ARKANSAS

Richard E. Bell, President, Riceland Foods, P.O. 927, Stuttgart, Arkansas 72160, (501) 673-5328. Ron Bailey, President, Producers Rice Mill, Inc., P.O. Box 461, Stuttgart, Arkansas 72160, (501) 673-4444. Charles Hammans, Chairman of the Board, Producers Rice Mill, Inc., P.O. Box 461, Stuttgart, Arkansas 72160 (501) 673-4444.

Tommy Hillman, Winrock Farms, Route 1, Carlisle, Arkansas 72024, (501) 552-7531. Stewart Jessup, Vice-Chairman of the Board, Riceland Foods, P.O. Box 927, Stuttgart, Arkansas 72160, (501) 673-5328. R.E. Short, Jr., Chairman of the Board, Riceland Foods, P.O. Box 927, Stuttgart, Arkansas 72160, (501) 673-5328. Cecil Williams, Arkansas Agricultural Council, P.O. Box 1837, West Memphis, Arkansas 72301, (501) 735-5054.

CALIFORNIA

Ron Harrington, President, Rice Growers Association, P.O. Box 958, Sacramento, California 95804, (916) 371-6941. Richard W. Carriere, Vice-Chairman of the Board, Rice Growers Association, P.O. Box 958, Sacramento, California 95804, (916) 371-6941. Ralph Keeley, Jr., Vice-Chairman, Farmers' Rice Cooperative, P.O. Box 1309, Colusa, California 95932.

William Lovelace, Chairman of the Board, Rice Growers Association, P.O. Box 958, Sacramento, California 95804, (916) 371-6941. Alfred Montna, Chairman of the Board, Farmers' Rice Cooperative, 12755 Garden Highway, Yuba City, California

95991. Ralph S. Newman, Jr., President, Farmers' Rice Cooperative, P.O. Box 696, W. Sacramento, California 95691, (916) 371-3100.

LOUISIANA

John R. Denison, Third Vice-President, Louisiana Farm Bureau, P.O. Box 15361, Baton Rouge, Louisiana 70895, (504) 922-6200. Craig Brown, Commodity Director, Louisiana Farm Bureau, P.O. Box 15361, Baton Rouge, Louisiana, 70895, (504) 922-6200. Ed Krielow, President, National Rice Growers, P.O. Box 598, Jennings, Louisiana 70546, (318) 753-2434.

Robert H. Miller, Chairman, Louisiana Farm Bureau Rice Advisory Committee, P.O. Box 64, Eunice, Louisiana 70535, (318) 457-4385. Buford Perry, Rt. 1, Box 471, Lake Providence, Louisiana 71254, (318) 559-0923. Edward H. Wild, Rice Producer, Route 302, Welsh, Louisiana 70591, (318) 587-2234.

MISSISSIPPI

Rex A. Morgan, Vice-President, Farmers Grain Terminal, Inc., P.O. Box 509, Shaw, Mississippi 38773, (601) 322-0987. Donald Beverly, Chairman, Rice Committee, Mississippi Farm Bureau, 500 Westover Drive, Clarksdale, Mississippi 38614, (601) 627-7080.

Alex S. Curtis, Vice-President, Delta Council, President, Farmers Grain Terminal, Inc., P.O. Box 1796, Greenville, Mississippi 38701, (601) 332-0987. C. Penn Owen, Jr., Chairman, Rice Committee, Delta Council, BOWDRE Plantation, Robinsonville, Mississippi 38664, (601) 363-1227. J.L. Slay, Mississippi Farm Bureau, P.O. Box 1972, Jackson, Mississippi, 39205, (601) 957-3200.

TEXAS

Dale Hunt, Chairman, 5 State Rice Producers' Legislative Group, P.O. Box 106, Garwood, Texas 77442, (409) 758-3244. Al Albrecht, Vice-President, Rough Rice Sales, American Rice, Inc., P.O. Box 2587, Houston, Texas 77252, (713) 869-8241.

John Howland, Executive Vice-President, American Rice, Inc., P.O. Box 2587, Houston, Texas 77252, (713) 869-8241. Barry Jeffrey, President, American Rice, Inc., P.O. Box 2587, Houston, Texas 77252, (713) 869-8241. Hal Koop, P.O. Box 802, Edna, Texas 77957, (512) 782-2229.

WASHINGTON, DC

Claude Freeman, Bishop Liberman, Cook, Purcell and Reynolds, 1200 Seventeenth Street, N.W., Washington, D.C. 20036, (202) 429-8442. Graham Purcell, Bishop, Liberman, Cook, Purcell and Reynolds, 1200 Seventeenth Street, N.W., Washington, D.C. 20036, (202) 429-8442.

Mr. HUNT. In total, the five-State group represents rice producers who currently produce about 70 percent of the rice grown in the United States. Our group's goal is to develop a unified recommendation for the rice section of the 1985 farm bill that would be acceptable to our industry, to the Government and to the U.S. consumer. We believe this goal has been accomplished.

Our recommendations which we will present to you today have been agreed upon by unanimous vote of the Five-State Rice Producers' Legislative Group on February 4, 1985.

Let me comment briefly on some of the aspects of the rice industry. Rice production is risky and very costly. Along with other crops, we also must contend with weather, insects, disease, and all of the sudden unexpected disasters which they cause. As experienced rice producers, however, we have been able to manage and, at times, to overcome these adversities.

Marketing our crop, however, contains many uncertainties difficult to overcome. About two-thirds of our rice production has been historically sold in foreign markets. We are experiencing extreme difficulty in competing in these markets because of the strength of the U.S. dollar and foreign government intervention. Currently our exports have fallen to 50 percent of our crop or have declined in hundredweights by about one-third, and even our domestic market has been threatened with the importation of rice from Thailand. I might add here that Thailand's law prevents importation of rice into their country.

In recent years, we exported about 24 percent of the world market, while Thailand exported about 20 percent. This past year, U.S. sales have decreased to 15 percent, and Thai sales escalated to in excess of 30 percent. We have seen Thailand infiltrate and, in many cases, capture traditional American markets such as Iran, Nigeria, Western Europe, and South Africa. Unfortunately, our rice is exported into a most heavily protected world market. We face persistent obstacles such as State trading practices, variable import levies, tariffs, quotas, bilateral agreements, and both export and producer subsidies which seriously hamper our ability to trade in these markets.

Chip Morgan has mentioned in testimony here this morning the denial on the part of our Government of a GSM-102 export credit guarantee to Nigeria because they refused to sign an IMF agreement. Thailand stepped in, did that business through a government-to-government agreement, captured one of the United States' best rice markets.

The U.S. industry now faces a permanent loss, we feel, of the Nigerian rice market, a market to which the United States supplied 402,000 tons of rice in 1981 and 358,000 tons in 1982. Thai exports have gone from 198,000 tons of rice in 1981 into Nigeria to 488,000 tons in 1983, a direct result of an aggressive government policy by Thailand and a weak government policy by the United States.

Thailand's farmers receive approximately $5 per hundredweight for what we call rough rice or paddy rice. These low paddy prices allow the Thai Government to gain a competitive advantage in exports which are the main source of foreign income for that country. Their Foreign Minister recently urged the exporters to sell at a loss in order to penetrate one of the United States' best dollar markets at this point in history, that is, the Saudi Arabian market.

Government-to-government contracts are growing in importance as a trade instrument. Over 2.5 million tons of rice of the total 5.8 million tons, 43 percent, which is exported by Thailand and Pakistan and Burma in 1983 were made using government-to-government arrangements.

In Japan, as an example, the rice farmer is subsidized by approximately $60 per hundredweight. Yet, Japanese laws prohibit the United States from selling rice into that country. Given Japanese access to U.S. markets, we feel that should be an intolerable situation to a government that espouses free trade. If we were able to ship the entire rice production of the State of California into Japan, it would amount to only 10 percent of Japan's total consumption of rice. Furthermore, we could price that rice in Japan at approximately 25 percent of what they are currently paying for it.

It is increasingly evident that American rice producers are not competing against rice farmers from other countries. Instead, we are competing against foreign governments. U.S. rice producers are helpless in a world of government-to-government deals when they do not have a government willing to reciprocate. We face very similar government protections in Europe. The European Economic Community prohibits milled rice from being imported into the Common Market countries in order to protect Italian and French rice farmers. Further, Surinam, for instance, can export brown rice into Europe at a lesser levy than that imposed on U.S. exporters of brown rice.

We feel that we are going to continue to lose export markets to the government-subsidized foreign competition. Market prices based on efficient production are rendered meaningless when governments enter the market for policy reasons that virtually ignore costs.

As we see it, the most effective way to capture our markets and to send a clear message to our overseas competitors that the United States will meet any challenge is to return to the Export PIK Program that was so successful in controlling our stocks approximately 20 years ago. Within the framework of this program, U.S. exporters would bid direct to importers at world market prices, and the exporters would receive from the U.S. Government a preestablished differential representing the difference between the world price and the U.S. market determined by USDA.

This differential could be paid in either money or rice from CCC stocks. This program worked extremely well in the past, and we feel it should be reinstituted as possibly the best vehicle to return the rice industry to normalcy.

I would like to briefly mention what I feel is the philosophy of this group. I think it was stated when the group was formed in 1981 by the then Chairman, William N. Lehrer:

> We are market oriented. We do not want government as an alternate for our product. We export in excess of 60 percent of the rice we produce and, therefore, would strongly oppose any program that would in any way negatively interfere with these markets.
>
> Though we feel the need for some price and income support, we do not feel that we can expect supports to be at levels that guarantee each producer a profit year in and year out. We view price and income supports as tools made available by government to assist the producer in the orderly marketing of his product over a season, and to prevent financial disaster for large numbers of producers. We feel further that the types of price and income supports in the present program accomplish these objectives and should be continued.

It is important that I relate to you the situation in which our rice producers find themselves regarding price supports. Rice producers cannot exist with a price support below the $8 per hundredweight level. Rice production requires twice the investment in land, buildings, machinery and equipment compared to the other commodities.

As a result of the foregoing, we would like to make the following recommendations regarding the 1985 farm bill:

Loan level: The price of rice shall be supported through nonrecourse loans and purchases without limitations to amount or quantity; the loan level to be set on a computed basis, the result of a formula, but in no case would loan and purchase level for any year be less than the $8 per hundredweight rough rice basis.

Target price: To be computed as under the present law. However, the established target price for rice for any given year shall not be less than $11.90 per hundredweight, rough rice basis.

Program acreage: The authority in the Agriculture and Food Act of 1981 relating to the proclamation of an annual National Program Acreage, determination of a program allocation factor and the individual farm program acreage will be continued for the life of the 1985 bill. We are asking the final date be changed from the current date, I believe it is January 31 to November 1 of the calendar year preceding the year in which the crop will be harvested.

Acreage limitation: The general authority for discretionary acreage limitations as provided in the 1981 act would be continued with the following changes: Announcement to be not later than November 1, again, of the calendar year in which the announcement is to be made, the calendar year preceding the year in which the crop is to be produced. If the Secretary estimates that as of the beginning of the crop year, August 1 of the calendar year in which the crop covered by the announcement will be harvested, that the total stocks of rice will exceed 25 million hundredweights, then the Secretary shall provide a combination of an Acreage Limitation Program and a Paid Land Diversion Program. The diversion program under the rice acreage in the farm bill would be limited to the farm acreage base reduced by not less than 25 percent, 20 percent of which would be acreage limitation and 5 percent of the additional would be paid land diversion.

The acreage base for any farm shall be the average acreage planted on the farm to rice for harvest in the immediate 5 years preceding the year in which the determination is made. The acreage history for any year could be adjusted to account for abnormal conditions. Notwithstanding the above, however, when an acreage limitation program is in effect for any year, the farm acreage base for that year shall be the same as the farm acreage base established for the farm in the immediately preceding year.

As far as the acreage required to be devoted to conservation uses, the regulations governing such uses shall be formulated and implemented solely by the Agricultural Stabilization and Conservation Service through that Service's State and county committees.

The use of the acreage required to be idled by the Acreage Limitation Program may, at the Secretary's discretion, be used for haying, grazing or production of crops. We recommend that discretionary authority to be continued with the exception of grazing, that the Secretary could not prohibit grazing on the acreage required to be idled.

We recommend again the general authority to make land diversion payments, as contained in the 1981 act. We ask specific recommendations as to index the carryover, as to what those diversion levels per payment of hundredweight should be. They are essentially the same as became law in the 1984 amendment. The authority of the 1981 act that prohibits cross compliance as a condition of program eligibility will be continued for the life of the 1985 act.

Offsetting compliance: We would like to see the continuation of the discretionary authority of the Secretary.

On farm program yield, the 1981 act provides that the yield established for the farm shall be determined on the basis of the actual yields per harvested acre for the 3 preceding years with authority to adjust abnormal yields. This provision would be extended for the life of the 1985 act.

On payment limitations, we recommend payment limitations would not be authorized by the 1985 act.

Loan maturity dates and loan values by class are presently established by regulation under discretionary authority granted to the Secretary of authority. This authority would be continued in the 1985 act. However, the 1985 act would require that any reduction in acreage resulting from acreage limitation and/or paid land diversion program shall be achieved by applying a uniform percentage reduction to the acreage base for each rice-producing farm.

Restrictions on certain CCC sales: Section 407 of the Agriculture Act of 1949 shall be amended to require that CCC not sell any of its stocks of rice at less than 115 percent of the current national average loan rates plus reasonable carrying charges. This amendment will further provide no exceptions to this requirement for any unrestricted domestic sale or disposition, including what is termed sales to offset acquisitions that would impair the price support program, adversely affect market prices or discourage processors, dealers and others from acquiring and carrying normal inventories.

Export incentives: We are very strong on feeling that every conceivable effort to increase rice exports should be authorized and funded. Such an effort would include, but not be limited to, strengthening and increasing Public Law 480 programs; extend to all nations and increase the funds available for the export credit programs; require the United States to exercise all international trade rights to prevent any further loss of the U.S. share of the world rice trade; to implement an Export Payment-in-Kind Program to maintain the U.S. share of the world market.

Mr. Chairman, finally we would recommend that to ensure that the Government programs restricting the production of rice in this country are effective, that the importation of rice must be stopped through legislative relief.

Mr. Chairman, we feel that the recommendations we have presented are fair to Government, to the consumer, and necessary for rice producers to continue in business. We strongly recommend that they be enacted into law in the 1985 farm bill.

We are grateful for the opportunity to express our views to you and to this committee. Several members of the five States that I have introduced here are willing to make brief supporting statements if you would so request, and certainly we would be happy to attempt to answer any questions from you or members of your committee.

Senator COCHRAN. Thank you very much, Mr. Hunt.

I know you were here and heard my questions of the previous panel. One question involved a reaction to a proposed marketing loan program.

I would be curious to know what you think of that, and whether you think there would be an appropriate place in the farm bill for that kind of program.

Mr. HUNT. We are familiar with that concept. Our understanding is that there are still various ramifications. I simply would say to you we do not have a final position. We are studying that proposal. We are extremely interested in continuing our study and discussion of it. We do think it has a great deal of merit.

We see our real problem as our inability to be competitive in world markets, and we see the real issue, the real thrust of the 1985 farm bill to be whether or not we are going to have a viable U.S. rice industry. The need in response to that question is coming forth with something that gives us the ability to be competitive in world trade. We like that for that concept, that aspect of that concept which would move our commodity right on into world trade at competitive levels as opposed to permitting it to build up into CCC stocks with storage costs and interest costs being ongoing.

Senator COCHRAN. Under current law, the CCC is prohibited from selling in overseas markets at any price below 115 percent of the loan rate.

Is this an impediment to our U.S. agricultural policy or is this something that should be continued in the 1985 farm bill?

Mr. HUNT. Well, we have just spelled out that CCC should not be given the authority to sell in those discretionary situations that have been used recently in the past. We think there are a number of avenues, a number of programs, and that is the reason we think that in the current law there is an authority for an export PIK restitution. We think that avenue should be used, that too should be used to get us competitive.

Senator COCHRAN. You mentioned in your testimony that you would favor continuing Government support, at least to a point of $8 per hundredweight. You mentioned also that Thailand recently made a sale to Nigeria at something like $5 per hundredweight, and that they are trying to aggressively pursue the Saudi Arabian market at that price.

How do we support a support level of $8 and compete with market prices like that in overseas trade?

Mr. HUNT. That is the real issue, Mr. Chairman, and I think I simply would summarize it this way, that the rice industry cannot bear the burden of the differential in the dollar exchange rate. It cannot bear the burden of being able to compete government-to-government, putting our producers in competition with other governments. It cannot bear the burden of prices being lowered to the producer at this point in time, and therefore our position is that loan levels should not be taken below $8, that we must look to Government and call on Government to bear the burden of the differential that it takes between our costs, our production, that which it takes to sustain us and to be competitive in world markets.

We think we have absolutely no control over the strength of the dollar. We have absolutely no control over government-to-government relationships, government-to-government policies, food policies, et cetera.

Senator COCHRAN. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman.

I was sitting here thinking about some nice things I was going to say about Mr. Short and you threw me off. I will save those thoughts for a moment.

Mr. Hunt, you know in your prepared statement that the Japanese rice farmer received about $60 per hundredweight. I assume that is in government support.

You also state that present Japanese laws prohibit us from selling rice in that country.

Mr. HUNT. Yes, sir.

Senator PRYOR. How much rice do you estimate the United States could sell to Japan in the absence of those trade barriers?

Mr. HUNT. I stated in my testimony that if the trade barriers were completely eliminated, we could furnish the entire production of the State of California, which is the type of rice the Japanese utilize. That would only be 10 percent of their requirements. We could do that at 25 percent of that current cost.

I have no direct estimate of what we could immediately move into that country, but I think that it is obvious that the barrier is an insurmountable barrier. I think a recent article in the Washington Post that had to do with the trade negotiations, the trade discussion that is occurring, indicated that the Japanese negotiator made explicit reference to the rice trade, saying in summation that the rice trade was untouchable. In fact, it was the same as sacred.

Senator PRYOR. The Senate last Thursday passed a resolution expressing a concern with regard to recent decisions on the United States and Japanese trade. I think it expressed the frustration of the individual Members of the Senate, which mirrors the frustration that I sense right now in how they are beating us to death in the way they treat us, and the way they handle us, the barriers that they put up to trading.

I personally think we are going to have to adopt a much, much tougher attitude, and a much more aggressive attitude. We have the leverage to do it, and we love to say we support free trade, and everybody just claps and carries on, but we do not have free trade. And then we say, well, we are afraid we are going to start a trade war. We are in a trade war. In fact, we are not even in the trade war. We are sitting on the sidelines. We are sitting up in the top seats of the stadium watching the trade war. We are not even a player today in the so-called trade business, and I think that the resolution we adopted Thursday certainly is reflecting the more aggressive stance that we have got to take. I think that we are missing out on a tremendous market potential.

Senator Zorinsky wanted me to ask a question or two, and I will do that at this time, Mr. Chairman.

What actions do you think are appropriate to make the United States/Japan trade more open? What do you think we should do? Do you have any thoughts on this subject?

Mr. HUNT. I think we need to do just as you said. Rather than be the paper tiger in trade negotiations, I think that we need to show to the Japanese that we are serious, that we intend to make the playing field level, and that there are many ways to reciprocate. My feeling would simply be that we be less hesitant to do that, and more anxious to stand up for our great country, and to really understand the seriousness of this, not only with Japan, but with other countries as well.

In my judgment, we have far too long been too deeply interested in the concerns of others, to the detriment of the concerns on our own soil.

Senator PRYOR. Another question by Senator Zorinsky, which I would like to impose on his behalf at this time.

Other rice-producing nations, such as Thailand and Indonesia, have storage problems. We talked a little about storage this morning. Thailand is a net rice exporter, Indonesia is a major importing nation.

How can the United States use its ability to store and transport rice in good condition, to achieve greater export sales? I wonder if you, or your panel have any thoughts on this subject?

Mr. HUNT. Let me say, first of all, that we see the Thailand situation—the Thai crop is 6 percent irrigated.

Senator PRYOR. Pardon me?

Mr. HUNT. Six percent irrigated, as we know irrigation in this country. They depend strictly upon the timing of the monsoon floods, and the impoundment of that water, which means they have to hold deep water. But the real issue is that if those rains do not come on a timely basis, or do not come on an adequate basis, they have shortfalls. They have had 5 unprecedented years of perfect timing. They do not have adequate storage facilities, and therefore, they are dumping on the world market, and have created havoc in the market.

The United States, by virtue of its storage capabilities, and by virtue of its quality in both processing and technology, does have a superior product, and can command, to a degree, a premium, but not the degree of the $200 a ton differential that they are currently coming at us with.

I simply would say that we utilize our storage as best we can, that we do not ever give up on quality, that we maintain the premium quality that we are so capable of doing, and that our product is identified by, and that in these abnormal periods that come and go, we call upon Government to come to our rescue, and to be competitive, and therefore, to signal to the Thais, look, whatever you do, we are going to do, and you had better get your production in line with your capability to market, because we will meet you head on. We use storage facilities to back that up.

We use logistically our transportation capability to deliver wherever in the world, on a timely basis, and to deliver what we sell, and to keep our customers satisfied as far as delivery, both in a time frame and as far as delivery of quality, and we can compete with them.

But we simply cannot compete when they are in times when they have got rice running out the ears, and they have no alternative but to sell it.

Senator PRYOR. So not only must we have a stronger USDA policy, but also a much stronger policy from our own State Department.

Mr. HUNT. Absolutely.

Senator PRYOR. This is where I think we are really, really lacking.

Mr. HUNT. Yes, sir.

Senator PRYOR. One other question I would like to pose.

Mr. CHAIRMAN. There is nothing I know of written in the Magna Carta or the Declaration of Independence, or the Constitution, saying we have to have a 4-year farm bill. I am beginning to wonder if we are wise in trying to project for 4 years and draft a bill that we are going to live under for the next 4 years.

I know the purpose of it is planning, and trying to get orderly concepts and statutory language. You do not have to speak for the group, but just as an individual, I wonder if you would have any objection to us writing a 2-year versus a 4-year farm bill in 1985?

Mr. HUNT. Well, I certainly would respond by saying that there is a great deal of flexibility in the world situation. I think the issue goes much deeper than that, Senator. I think that once the hurdle is crossed as to the real importance of agriculture to our Nation, once we have made the decision, are we or are we not going to have a viable agriculture, are we or are we not going to be competitive in world trade, then if we are really committed to that, I think the length of term of the farm bill becomes less consequential.

I personally feel that there should be more stability, and more longevity plugged into these programs, to give the industry the ability to do planning, and to have some long-range feel for really where we are trying to get to.

Senator PRYOR. Mr. Chairman, that is all.

Mr. Short, was he going to respond?

Mr. SHORT. I would like to respond, Senator.

Senator PRYOR. Before you respond, let me say, Mr. Chairman, and my colleagues, that Rome Short from the great State of Arkansas, who is the chairman of the board of Riceland Foods, not only is an outstanding spokesman for agriculture, but also a business and civic leader. I am certain, one of the most respected people we have in our State. We are proud that he is here today.

Thank you, Mr. Chairman.

Mr. SHORT. Thank you, Senator, very much.

One of the things that occurs to me as we discussed your question, which brought this up, about having a farm bill for a lesser period of time, or more period of time, adjustment in whatever might be a 4-year farm bill, I think back to some of the things we have heard about the 1981 farm bill, and what a disaster it has been, and so forth.

I sometimes reflect and say, well, maybe it was not as much as a disaster as some other approach could have been. I really think the 1981 farm bill was a good farm bill. I think there have been a lot of things that have occurred since 1981 that make it look like it is not a good farm bill.

We have had the strength of the dollar, that certainly has interfered in these things. We have had seemingly growing involvement of State-run economies that have decided for their well-being, for the creation of foreign exchange, that they have had to do things that our Government apparently does not want to do.

I think had not some of these things happened, the 1981 farm bill was an excellent bill. I also think that within that farm bill that now exists there are the mechanisms to do some of the very things that we are already talking about.

Mr. Hunt made reference to that earlier. There is the mechanism to make our farm products competitive by some form of restitution, or whatever it might be. I do not think we should overlook that about this bill.

But regardless of what administration it is, and when we think about whether if they are 1-, or 2-, or 4-year farm bills, or what it might be, I am feeling stronger and stronger, as you gentlemen draft this next bill, that these things that we are talking about, that if we feel strongly enough about them, of we are going to get after the program, if we are going to be competitive in these markets, that you are going to have to mandate it in the legislation, rather than leave it to the discretion of the administrations. This is primarily the point I wanted to make.

Senator PRYOR. I strongly agree with that.

Senator COCHRAN. Mr. Harrington, you may proceed.

Mr. HARRINGTON. With your permission, we allude to the 1981 farm bill, I think the 1981 farm bill, while it had some good points, speaking as I do, representing 50 percent of the rice growers in California, it just did not fit California too well.

I recognize that part of the failure of the 1981 farm bill was brought about by things that happened in the world economy, and in the economy of this country, which are far beyond our control, and probably far beyond the control of the Congress.

Nevertheless, because of the size of the California farm, and in addition to which, if you incorporate into that factor the yields that we experience in California, basically this program in the 1981 farm bill, the present program, has not worked in our industry, and I think we need some changes, and I do not think the farm bill has really worked.

I think we are going to have to move. We have got to change with the times. In order to become competitive in the world markets, it is going to take some changes.

I would like to respond to Senator Cochran's question, which relates to the farm-oriented farm bill. I am walking around on a kind of tightwire right now, but because I have supported the five-State legislative group—and I intend to do that. I did so when it was formulated. But I think the five-States, along with—and I remember the admonishment of Senator Pryor, that it is important that the industry remain united.

I accept your admonishment, and we are going to do everything we can to do that. But I think we would be somewhat foolhardy if we did not take a look at the programs that are being presented by other people, and any method we can use, and incorporate in the 1985 farm bill, which will make us competitive in the world market, and provide some kind of support for American agriculture.

I think that American agriculture is equally important to our national defense as a strong national defense militarily. I think they go hand in hand. One is worthless without the other. I think we have to recognize that.

I agree with Mr. Hunt when he says I think somewhere down the line, and the sooner the better, we have got to make a determination as to whether the United States wants to be as competitive agriculturally, or are we going to bow out of the agricultural field altogether, and gain our position in the world in other areas, other than agriculture.

That is a decision—I think that is the most important decision you people have got to make in 1985.

Senator COCHRAN. Thank you, Mr. Harrington.

Are there any other panelists who want to respond?

Mr. GARY. I would like to make one comment. My father was a farmer, and he often traded mules. He taught you always try to get a better mule than the one you just traded off. I learned you have to get value for value when you trade.

The strong dollar and the export market is what killed us, but they have traded our mule away, and I would just like to comment on one thing about the seriousness of rice production.

We have a 400,000-acre base in Mississippi. The USDA predicts we are going to plant 167,000 acres. I think it will be below 150,000 acres. I mean, our rice industry is up against the wall. We are being traded for spring feed.

Senator PRYOR. May I ask the question of how many acres did you plant in 1984?

Mr. GARY. Right at 200,000, but it is going to be drastically reduced. I think it will be reduced in Arkansas, too.

Mr. SHORT. Yes.

Senator COCHRAN. What about Louisiana, Mr. Wild? What are you looking at down there?

Mr. WILD. As far as acreage?

Senator COCHRAN. Yes.

Mr. WILD. It will probably be about the same in Louisiana as compared to California and probably Mississippi. Our farmers are just as concerned about the 1985 farm bill as anyone else. It is hard times for us, as has been expressed by the rest of the panel.

We see our problem as an agricultural problem, as well as a rice problem. We just cannot compete in the world markets. Over 60 percent of the rice in the United States has traditionally gone overseas, and Thailand has already been explained pretty well, taking practically every good market the United States has ever developed.

This is something else. I would emphasize that the taxpayers have spent a lot of money developing business from foreign countries, and things like that, and they, in turn, turn around and use that good job. Apparently we have done a good job of training them. They turn right around, and they take our markets away from us.

It certainly makes me kind of confused as to just what we ought to do.

Senator COCHRAN. That is kind of like the Mississippi high school football players going to LSU. We train them. [Laughter.]

Senator PRYOR. One question.

What is the value of the Thailand rice crop each year? Do we have a dollar figure on that? Is that possible to answer?

Mr. HUNT. Well, they export 5 million tons, I believe. Is that not what the USDA predicted this year? Somewhere around there.

Mr. WILD. Five million tons, and their current price is somewhere around $240 a ton, in world trade.

Mr. HUNT. Convert that into dollars, Ed.

Senator COCHRAN. You might want to submit that for the record. We can include that in the record of the hearing, if you do not have it off the top of your head. It would be helpful for us to know that.

Mr. HUNT. In 1984–85, 4 million metric tons exported out of Thailand.

Mr. WILD. I think their current price is about $240.

Mr. **Hunt**. Steve Gabbert is here. Steve, do you have that number?

Mr. **Gabbert**. Your question is about the value of the crop itself, or the value of exports?

Senator **Pryor**. I guess the value of the crop.

Mr. **Gabbert**. They produce, let us say, about 19 million tons, and if they are getting $5 a ton, that is about $110 million for the value of the crop in Thailand. Exports are about 4½ million tons. For exports, you multiply that by approximately $400 a ton.

Senator **Cochran**. Thank you very much.

Senator **Pryor**. Maybe we ought to buy this crop.

Senator **Cochran**. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. There is no rice in Alabama, and I am not greatly knowledgeable about it. I usually, in the past, looked to the rice State senators for leadership, which is generally supplied by Senator Cochran and Senator Pryor and Senator Bumpers, and others. We usually try to be of assistance, and see to them, provided there is a little reciprocity toward some of these rare crops we have in Alabama. [Laughter.]

I wanted to get the proper perspective. We have had now all these hearings on wheat, where we have got wheat and feedgrains and cotton and soybeans, and all that sort of stuff, so we are now getting into those where they are not universally grown.

So I do not have to know a lot about all of these, but I think that there are a lot of similarities in looking at farm legislation as a whole, that we are losing in the export arena, and I know that the value of the dollar, the relationship of our currency with currency of others, is an important factor. But we are also losing because of unfair competition. It comes through everywhere.

I asked a hypothetical based on four things, and where we would be 10 years from now and, basically, we are looking generally to see increased production in our country because of research.

I do not know about rice, but practically all commodities are going to improve in the yields, on a per acre basis. If the value of the dollar stays the same, and if the unfair predatory foreign competition continues as it is now, without taking steps to correct them, if it is true—and I want to ask you about this in the future—if it is true that we are going to see new and additional competitors, in the export market, we are going to be faced with a problem.

I think you can say it is an established fact that we have not aggressively used the tools that we have to get export markets.

Just looking at this testimony here today, I gather that the Nigeria instance, on the failure to use the export credits, the GSM-102 program, is an example of that in rice. So it appears to me that if agriculture is going to be successful, whether it be a 2-year program, a 4-year program, or a 10-year program, or anything else, is that in whatever program you have, it is going to depend on what we do about getting export markets.

You have got some major surgery, No. 1, unfair competition; No. 2, value of the dollar; No. 3, growing competition in most of the commodities that we have had testimony about, and a failure to aggressively use the tools that you presently have.

Now, just with that sort of as a background, let me ask you this. Are there other countries, other than Japan, which present unfair trade barriers, present unfair or predatory action relative to you obtaining export markets for American-grown rice?

Are there countries other than Japan, and if so, name them?

Mr. HUNT. I mentioned Thailand, which we would have to admit by virtue of price, that it would be very difficult to put rice into that country. They do have the same restrictions on imports. There are bilateral agreements between other countries, such as Thailand and Bangladesh.

There are export quotas, as set by some countries, such as Pakistan. Of course, the big trade barrier we have discussed is Japan. There are trading practices by other countries, such as Iraq. All their purchasing is done by the Iraq Grain Board. Purchase is done by Nigeria. We have been signaled by Nigeria that their future purchases will be government to government.

The European Common Market I mentioned, which would be a whole host of countries. Again, I would like to, Mr. Chairman, with your permission, call upon Steve Gabbert for maybe other examples, that I am not totally aware of.

Senator COCHRAN. He is going to be a part of the next panel, so we would not want him to use all of his ammunition.

Senator HEFLIN. You might submit that in writing later, if you wanted to add to it.

Let me ask this. Do you see on the scene additional and new competitors for your export markets?

Mr. HUNT. Do we see on the scene United States——

Senator HEFLIN. Do you see additional and new competitors rising?

Mr. HUNT. Yes; we do. We are very concerned about China.

Senator HEFLIN. China seems to be causing a lot of problems in wheat, soybeans and cotton, everything here.

Let me ask you this. From your knowledge, is it possible—I do not know anything about rice farming—is it possible that research can cut the cost of production?

Mr. HUNT. Sir, we are doing that. I think in virtually each of the five States there are extensive producer funded, as well as both State and Government money that goes into into research in the area of reduction of production costs. I can speak specifically for my own State.

We have at least stabilized, and have, in some instances, by some areas, reduced production cost in the last 3 years, primarily due to varietal improvements, as well as improvement in cultural practices.

I would like to ask—I know that is being done. Great strides have been made in California. Your State, Mr. Chairman, and Texas, have worked closely together.

Ed, there have been improvements in your State, as well as in Romey's, in the State of Arkansas. So if time will permit, I would be glad for each to respond with their own statement. I can tell you overall there is a lot of work being done in that area.

In the State of Texas, for example, 3 years ago we increased the producer contribution from $160,000 yearly for research to in excess of $750,000. We doubled our research force, expended our research area, have obtained a nursery in Puerto Rico, so we can grow new varieties year round, and similar things are being done by the other States, and there is an overlap, or an interchange, and exchange between each of the rice-producing States.

Senator **Heflin**. Thank you.

I have extended an invitation to other groups, and I extend an invitation to all that testified today, or that will testify, to let this committee have your thoughts relative to how proposed tax simplification bills would affect your industry, and how it might affect it.

We have heard from some farm groups that it could drastically affect the income of the average farmer. On the other hand, there are a lot of attractive features about it, and I think that maybe each and every commodity may have a different viewpoint, and each and every segment of the agricultural economy might find that it affects them differently as to what their situation might be.

But we do invite you to submit, in writing, any statement that you would like to make. I think we should look at proposed tax bills from an agricultural viewpoint, to better advise us on our positions. Also, in the event it appears that they pass, or that they likely will pass, to try to make some sort of adjustments in farm programs that might need adjustments as a result of it.

So I do invite that, and if any of you have any initial statements that you would like to make about it, I realize this is a little different, and you are not prepared to speak. Taxes are a complicated matter, and sometimes require a good deal of expertise. It may require that your wife would have to do it.

I had a fellow tell me, he said—he was complaining about this logging he had to do. He said, you know, I am not a records man. I do not keep many records. My wife keeps all our records. That means that from now on, wherever my pickup goes, that she has got to go, and he said there are some places that my pickup wants to go that she ought not to go. [Laughter.]

Senator **Pryor**. Mr. Chairman, I beg to follow up on Senator Heflin's comment about the recordkeeping.

The committee, our colleagues and friends from agriculture and from around the country should know that tomorrow the Finance Committee will consider the repeal of the recordkeeping measure. I think there are over 50 sponsors now for repeal, and I think, in addition, there will be an attempt to modify this recordkeeping. I hope we get it appealed. Ways and Means in the House will also consider this, I think, tomorrow.

I could not help but respond to that. I cannot comment about the pickup. [Laughter.]

Senator **Cochran**. Mr. Harrington.

Mr. **Harrington**. May I make one comment about the discussions that are going on with Japan.

You are going to run into a catch-22 on Japan. I serve on a board with representatives in California from every single commodity that is grown in California. Naturally I tend to favor the programs and support the rice and wheat industry. But from California, Japan imports big quantities of table grapes, wine, almonds, prunes, all of those things. So when you try to get hardnosed with Japan, then we find our friends and neighbors getting hardnosed with us right here. So you are running into a catch-22 type of situation which I think the administration is right now in their negotiations on other matters with Japan. This is not going to be a simple process.

Senator HEFLIN. The only thing is they have already gotten hardnosed with us.

Mr. HARRINGTON. I realize that, but we are going to have our friends, neighbors, and fellow farmers in agriculture getting hardnosed with us because they do import their commodities. That is what I am saying. I have no problem getting hardnosed with the Japanese. I spent 2½ years over there fighting them, and I am willing to start it all over again with regard to trade.

But, you know, this is not going to be a simple problem for you people to handle.

Senator COCHRAN. Thank you very much, Mr. Harrington.

We appreciate this panel being here this morning. It has been a very, very good panel. Thank you for your presentations.

Mr. HUNT. Thank you, Mr. Chairman.

Senator COCHRAN. Our final panel this morning includes Hugh M. Arant, who is president of the Mississippi Farm Bureau. He is here representing the American Farm Bureau Federation. It also includes Mr. Robert McCann, president of the Rice Millers' Association from Alvin, TX, and he is accompanied by Stephen Gabbert, who is the executive vice president from Arlington.

We welcome you to the committee, Mr. Arant. You are a good friend and we know you well, just as we know Hobson Gary, who was a member of the previous panel. You are both outstanding leaders in agriculture in Mississippi, and you do our State a great honor by representing the State of Mississippi today in these hearings.

We have a prepared statement from you that you are submitting for the American Farm Bureau Federation. We will make that part of the record in its entirety and ask that you make summary comments from this prepared statement if you can.

Thank you for being here.

STATEMENT OF HUGH M. ARANT, PRESIDENT, MISSISSIPPI FARM BUREAU, JACKSON, MS, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. ARANT. Thank you very much, Senator Cochran, and certainly we appreciate the opportunity to appear before the committee and to present the recommendations of the American Farm Bureau Federation.

I am a rice farmer as well as being president of the Mississippi Farm Bureau and serving on the American Farm Bureau Board of Directors.

Certainly the position that rice holds today in the agricultural economy of the State of Mississippi is important to our State. It is important to the Nation, as you have said.

I will summarize, and I do have a statement for the record,[1] and certainly a whole lot of the policy that has been approved by our delegates in their annual meeting has been given to you before in some of the other committee hearings that you have had on different commodities, but we would like for you to know also though that as the American Farm Bureau looks at the total overall picture that there is a necessity that we do have a viable agricultural industry in this Nation.

Speaking specifically to rice, the short-term outlook for rice producers is kind of bleak, simply because of the high levels of supplies that we have on hand and the prices that our farmers are receiving for these things today. But we also know that in consideration of a new farm bill that we are talking about that we have got to develop a farm policy that will work in concert with sound trade, true monetary and fiscal policies and the problems that Congress is facing along with the administration on these things.

The farm programs must adjust to the market and offer an opportunity for improved conditions. Certainly the Farm Bureau's policy over the years has been to move to a market oriented type agriculture, but we cannot move to it so fast that a farmer gets all of his income from a marketplace, that we disassociate ourselves from all those other ingredients that go along with the implementation and through having a sound agricultural policy.

The Farm Bureau has developed a legislative proposal which would be market responsive and fiscally responsible, and we believe that tying loans and target prices to an average of the market prices would be a way of moving in this direction as we have seen. The success that the cotton industry has had in the years in tying some of its loan levels to the average of the market price has been well illustrated, even though oversupply still affects the amounts that we do have.

As far as loan rates, in that area we would recommend that the loan rate be set at 75 percent of the 5-year average of the market price, domestic price, dropping the low and the high year to give you the 3 years. And then as this rate is moving from one area to another, that it not be adjusted more than 10 percent any 1 year up or down, depending on what the market price is, and this would include the first year of the program.

I think that a program of this type would signal to the competition worldwide that we are going to be in there battling with them over the prices, the markets that we have developed over the years.

Target prices certainly enter into it very much so because of the need to transfer some type of income from other segments of the economy into agriculture. Certainly the deficiency payments that are available under the target price programs, are very important to the rice industry.

We would recommend freezing the target prices for 1986 in a 4-year program at the 1985 level, and then after that the target price would be set at 110 percent of the 5-year average, using the same figures that we determined for the loan rate, and then adjustments be made either up or down at a rate of 5 percent per year so that it would not move in so fast that it would pull the props out from under all the industry.

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[1] See p. 476 for the prepared statement of Mr. Arant.

We also support the $50,000 limitation that would apply to deficiency payments. Frankly, I would look at this as being a lower limit. But when you spell out $50,000 that seems to be the only realistic figure that we have heard in recent years.

Export markets, the expansion of export markets, that is one of the main topics of conversation we have had here today, and however we do that—and I know, Senator Cochran, in the 1981 bill you were instrumental in getting a lot of legislation written into the bill that was never implemented, and even since then that we have had certain legislation that has called for certain things to be done that have never been implemented. We feel that certainly with the loss of our export markets this has been one of those things that has brought about the financial crisis that we find in agriculture today.

Through Public Law 480, or Food for Progress Programs, all of these things could be used. The CCC credit revolving fund that you have been involved in certainly is important to us. The Export Credit Programs, the Blended Credit Programs, and certainly we are very appalled to have received a recent ruling from the Supreme Court on the Cargo Preference Act. The Farm Bureau—and I see Senator Pryor has gone, but he did mention this a moment ago about cargo preference. But very definitely the Farm Bureau is opposed to the Cargo Preference Act as it is being applied today, and certainly we feel there ought to be some other way to finance the American fleet ships rather than with the detrimental effect it is having on our agricultural exports. We would favor a repeal of the Cargo Preference Act as it stands now.

I think one of the things that may be new in our organization are the barter type proposals that could be used, where we have some proposals in export expansion to barter with some of the other countries on the amount that we do.

The Bonus Export Program, some people have talked about this being an export PIK-type program, where if a country buys two bushels, give them a bushel to go along with it. Our big problem is moving our supplies, getting the surplus off of our hands, so these bonus tonnages that could be supplied from CCC commodities certainly would be an incentive to overcome some of the export subsidies that we see are being offered.

On the Acreage Reduction Program, the Farm Bureau proposal pretty well goes along with the same type of proposal that Mr. Hunt and the five-State committee mentioned. There would be reduction programs instituted by the Secretary whenever the normal supply exceeded the 25 million hundredweight level. So we are pretty well in line with all of the other recommendations that have been made here, and certainly the important thing I think that has to be said here is that the rice producers or the rice industry, I believe, is more unified; and the American Farm Bureau, working through the commodity division activities where they take recommendations from the advisory committees that function in those different commodities, is pretty well unified in what we are doing. We are going to work very closely with the committee in trying to develop a sound, fiscally responsible farm bill.

I think a 4-year farm bill may be in the best interests with the idea that nobody really knows what 2 years from now is going to hold, but Congress does meet every year and it would give some planning.

I would be happy to respond to any questions.

Senator COCHRAN. Thank you very much. We appreciate your being here and giving us that fine statement.

Mr. McCann, president of the Rice Millers' Association.

STATEMENT OF ROBERT E. McCANN, JR., PRESIDENT, RICE MILLERS' ASSOCIATION, ALVIN, TX, ACCOMPANIED BY STEPHEN GABBERT

Mr. McCANN. I am Robert McCann from Alvin, TX, currently president of the Rice Millers' Association which we will refer to from here on as RMA. With me today is J. Stephen Gabbert, who is the executive vice president and chief executive officer of RMA.

Our association was formed in 1899 and processes virtually all the rice that is grown in the United States.

Rice is an export-dependent crop. We feel that the economic survival of all segments of the industry is closely linked to the ability of marketing segments to competitively sell rice into the international market.

I will not read all my statement, Mr. Chairman, but I think there are some graphs and charts in there that will depict very accurately some of the testimony you have heard prior to now.[1]

I would sum up briefly that rice mills are currently running only at less than 60 percent capacity. We have had some who have filed bankruptcy and have closed. Likewise, we have had similar actions on the part of independent farmers. I think that is proof enough that we need legislation that certainly needs to be more flexible than that which we have today.

We would like to put some of the emphasis on the fact that we feel Government policies and programs should aggressively assist and facilitate export marketing, expand profitability potential and opportunity of all industry segments and enable rice to be sold on a competitive basis.

To that end, RMA suggests an export policy that would be established in the national interests that provide some of the following, and if you want to follow with me, Senator, I am on page 5:

> Would mandate an export-in-kind program when CCC stocks reach designated levels; would establish mandatory retaliatory mechanisms that will be implemented against countries which unfairly deny access to U.S. agricultural products; would implement a "Food for Progress" program separate from Public Law 480 that utilizes CCC inventories on a multiyear basis to leverage establishment of long-term economic development policies in most seriously affected countries; amend and fund the GSM-301 3- to 10-year export credit guarantee program; would make it a policy to tie trade and aid together in order to leverage purchase of U.S. agricultural products on a commercial basis using appropriate mixes of Public Law-480, Food for Progress, Economic Support Funds, Commodity Import Program, GSM-5, GSM-102 and GSM-301 programs; that would compensate for the high value of the dollar which, in reality, is an export tax, by mandating an export restitution or monetary compensatory program; would expand and reform Public Law 480 to combat short-term hunger and malnutrition.

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[1] See p. 479 for the prepared statement of Mr. McCann.

Mr. Chairman, we thank you for giving us the opportunity to have our opinions viewed, and we look forward to working with you as well as any other groups in the interest of developing a more flexible agricultural program.

Senator COCHRAN. Thank you very much, Mr. McCann.

I was interested in hearing almost each panel make some reference to the import of foreign-produced rice into the United States. I notice that, while you did not recite this part of your written statement, you do have a portion of your statement devoted to this situation. On page 6, you mention that imports of Asian rice have increased 300 percent. This is from the 1981-82 year to the current year.

Would you recommend, as some others have, that we legislate a prohibition against imports or in some way try to legislatively control the amount of rice that is imported into the United States?

Mr. McCANN. Yes, sir; if you will notice, what we are saying is that existing legislation should be amended to allow for speedier or more timely action in restricting imports that adversely impact on any of our CCC support programs.

Senator COCHRAN. Almost everybody has mentioned this as a serious problem. Because I know that the millers keep statistics on all this—and Steve Gabbert probably has a whole notebook full of numbers with him—I was going to ask about the level of imports and the extent to which these might be displacing U.S. production right here in our own domestic market.

According to this part of your statement, it is a substantial amount. It does indicate that this committee ought to consider recommending some kind of action to deal with that.

One witness suggested, if I remember it correctly, that we just simply prohibit imports. Would you support that, or is there some less dramatic action you think would be indicated?

Mr. GABBERT. I think, if I may answer that one, Mr. Chairman, for the record my name is Stephen Gabbert. I am accompanying Mr. McCann.

I think that we would certainly want to make any actions that we did take legislatively regarding imports to be consistent with the GATT and we would not want to do anything that would unduly restrict. In other words, we would be just as guilty as other countries in limiting access.

I think though there are some amendments that could be made to section 22 that deal with the impact on the Price Support Program that may make it easier to deal with the issue.

Senator COCHRAN. I would like to have the benefit of your suggested language on that. There may be some who will want to go further than that, but any suggestion that you can make with specific language recommendations would be appreciated.

Do you have any thoughts on that, Mr. Arant?

Mr. ARANT. I think the American Farm Bureau is very much afraid of retaliatory measures from every area. We are looking at the total export picture and you get into certain section 22 provisions that we have been involved in. But I would hope that the committee and the Congress would look rather—well, right now, they are looking at putting imports on steel or on shoes or whatever type things. Well, all this does is bring in additional retaliatory measures from the countries that we have to export our products to. So it is sort of a tradeoff, and I think Steve makes a good point about the GATT. Certainly we need to somewhere give our trade negotiators something to work with in this respect, and we do not want to build a wall around this country because certainly one acre out of every three we produce in this country has to go into the world export market and certainly that gets to be a tremendous burden on us if we cannot export.

Senator COCHRAN. At an earlier hearing of this committee we had a witness from Scotland who is a member of the European Parliament. He provided us with an interesting perspective that we normally do not get during our hearings on farm legislation. He just happened to mention during his testimony that Europe was the best customer of the United States for agriculturally produced commodities, and they—the member countries—do, of course, engage in some practices that upset us terribly. I know that particularly in the poultry and egg industry, you hear fuss about France and what they do to subsidize exports in the market that we have to compete with them for. It makes it difficult. It makes it tough. These international trade problems are not all that simple to work out.

Somebody said one time if you think of a simple answer to something, it is probably wrong. I do not know whether that applies to export development, but it surely seems to me the more you learn about our trade relations around the world, the more there is to it. You find that it is complicated.

We have heard a good deal of testimony about how it is important to maintain a support level for rice in our 1985 farm bill. We have heard that we ought not to walk away from this commodity and reduce drastically the Government support for rice producers or we will end up just doing away with our rice producing capability. I have heard $8 per hundredweight used as a minimum basis of support for rice.

What are your ideas about that? I know you talked about a moving average and that kind of thing, and we understand that is your testimony. What does it cost, though, to produce rice? Are we looking at a relationship here of support level with the actual cost of production? What is your thought about that?

Mr. ARANT. I do not think that we can get into a condition as to where we are going to tie the support price to the cost of production because certainly if you do that, you are going to have rice running out of your ears and all your elevators if you do that. If you set it at a level that relates to it, and certainly on the moving price or the average price that producers receive, there may be a justification for varying that percent from 75 to 85 or whatever might be figured into the bill to get a little bit closer. But you cannot have the same cost of production in California as you do in Mississippi or even Louisiana. It depends upon your yield per acre. It depends upon the land rents and costs and all of these type things that go into the cost of production figure that you use.

So whose are you going to use is what it boils down to.

Senator COCHRAN. That led us at one point to look at whether there should be a separate program for different classes of rice. What do you think of that?

Mr. Arant. Having had no thought on that in the past, I really do not know. It may complicate matters. I know particularly in our area, we only raise long grain. As a result of that, we are satisfied with what we have got.

Senator Cochran. Mr. McCann, in addition to being involved in selling overseas, you have a great deal to do with domestic production or milling for domestic use.

What percent of our U.S. production goes overseas and what percent is used domestically? What are our latest figures?

Mr. McCann. Approximately 60–40; 60 export——

Senator Cochran. Forty percent United States?

Mr. McCann. Yes.

Senator Cochran. If we went into a bonus PIK program and we started adding a bushel for every two or three bushels we sell, would that discriminate against domestic consumers in favor of foreign purchasers? If we do not offer them the same deal, they are paying just regular price, but our foreign customers are being preferred by getting a better deal. Are we going to run into fussing and screaming from 40 percent of our market if we do that?

Mr. Gabbert. We are already doing that now through the various Government programs that we have. Let us say Public Law 480. But, I think you have to look at the total package. When you view the fact that you are going to be using the inventory that the Government has already purchased as an offset, and that, in essence, is money that is going to save the taxpayers, in other words, it is all going in different directions and it may not equate to the grocery shelf, but you are going to be offsetting tax revenues for the use of maintaining large inventories we see coming. I do not see that is a problem.

Senator Cochran. You do not see it as a problem?

Mr. Gabbert. No.

Senator Cochran. What is the reaction of your group or you personally to the notion that we might do away with the requirement that CCC has to sell at 115 percent of the loan rate?

Mr. Gabbert. We really do not have a requirement that CCC sell—for rice it is 105 percent, the statutory minimum that applies to domestic programs—but as far as export programs, the Secretary is not bound by that. He can sell at any level he wants. So there is plenty of flexibility in the program right now.

Senator Cochran. Is this peculiar to rice or does it extend to other commodities as well?

Mr. Gabbert. I think it is peculiar to rice because I think you have to deal with the farmer-owned reserve, the impact that has on CCC stocks of other commodities.

Mr. Arant. Like with wheat and corn.

Senator Cochran. You have been very helpful to us. Your testimony has been excellent. I think we have had a good hearing this morning, looking at all different sides of the rice industry problems and the issues that face the committee. We appreciate your adding to our knowledge and helping acquaint us with the practical aspects of rice farming and the rice industry.

We will continue these hearings into next week as we review the various commodity programs and the challenge that faces us as we go about drafting a 1985 farm bill.

The committee will stand in recess.

[Whereupon, at 11:53 a.m., the committee recessed, to reconvene at 9:30 a.m., Tuesday, April 2, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Sugar, Honey, Wool, and Mohair Issues

TUESDAY, APRIL 2, 1985

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The commitee met, at 9:38 a.m., in room SR 328-A, Russell Senate Office Building, Hon. Mark Andrews presiding.

Present: Senators Andrews, Hawkins, Zorinsky, Leahy, and Melcher.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator Andrews. The committee will come to order.

This morning we will hear a number of different witnesses on the sugar, honey, wool, and mohair issues relating to the 1985 farm legislation. We'll explore the provisions and programs to be considered as part of the 1985 farm bill.

The sugar industry has undergone a number of drastic changes in the past 4 years since the last sugar program was enacted. The discovery of new types of sugar substitutes and alternative sources of sugar has caused more than passing concern to the more than 18,000 farmers who raise sugar and more than 100,000 workers who are directly involved in domestic sugar production and processing. That's why these hearings are so important. The entire focus of this hearing is to determine whether the current program is operating in a manner which is beneficial to the interests of the country as a whole or whether modification is necessary.

Let me go back and stress that once again. We're not talking about a program for sugar producers. We're talking about a program for the Nation's interest as a whole. We want to make, as a part of the record as much information on that very vital issue as we probably can. So when we take this bill to the floor we defend its separate sections on the basis of their impact on the economy as a whole.

The sugar industry is very important, of course to my State of North Dakota and as it is to my colleague and good friend, Mr. Inouye's State of Hawaii.

North Dakota is the fourth largest producer of beet sugar, producing approximately 11 percent of the total beet sugar production in the United States. Our receipts from sugar beet production total

$85 million last year. By anyone's figures, $85 million translates into a very important source of income for a small State like ours.

So let me say I'm well aware of the impact on the producer. I want to in these hearings develop the impact on the economy as a whole. It is very important to the smooth operation of this committee that we receive an accurate portrayal of the situation within the industry.

Today the first witness is Senator Inouye. It is a privilege to have you before our committee. Let me assure you that we'll pay close attention to the words you share with us.

It was my good fortune to be with your sugar producers in December, wonderful time to be in your state. Some of the people in this room were speaking in the River Valley with my sugar producers at that particular time, and I think I picked the best spot of the two. We welcomed your hospitality at that time. My wife and I enjoyed thoroughly the hospitality of you and your wife. Welcome to the committee.

Senator Inouye. Thank you very much, Mr. Chairman. Needless to say, you are always welcome in Hawaii.

Mr. Chairman, I have a statement which I would like to have put in the record.[1]

Senator Andrews. Senator, your statement will appear in its entirety in the record.

STATEMENT OF HON. DANIEL K. INOUYE, A U.S. SENATOR FROM HAWAII

Senator Inouye. I thank you for this opportunity to spend some time before your committee testifying about sugar; 1985, incidentally, is the 150th anniversary of sugar production in the islands of Hawaii. I am therefore pleased to note the presence of Robert Hughes, president of the Hawaiian Sugar Planters Association, who will be testifying later. He has 45 years of experience in this business. We also have John Bunker. He is the president of the California & Hawaiian Sugar Co., and has had 32 years of experience in the sugar business.

Mr. Chairman, I am here this morning to urge the committee to maintain a strong, effective sugar title in the 1985 farm bill. I respectfully request that the committee retain nonrecourse loans at levels that will ensure the vitality of our sugar industry.

Like so many other American farmers, sugarcane and beet growers are faced with mounting economic difficulties that threaten their very survival through no fault of their own. Like you, Mr. Chairman, I am not asking this committee to bail out an inefficient industry but to renew its commitment to hard working sugar producers who need the help of this Congress to meet the challenges of unfair foreign competition, record high deficits, punishing interest rates, high unemployment, and a growing trade deficit.

I wish to commend this committee and the chairman for his understanding of the problems faced by our distressed sugar industry. I found the draft legislation, S. 616, a very welcome alternative to the President's farm bill. I say this, Mr. Chairman, because the

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[1] See p. 486 for the prepared statement of Senator Inouye.

President's proposal to drop the sugar loan rate from 18 cents a pound in 1985 to 12 cents a pound in 1986 and cap nonrecourse loans at $200,000 per producer would mean, as you noted when you were in Hawaii, the instant demise of our sugar industry. I suspect it will affect the domestic industry in the United States as a whole.

I need not emphasize this, Mr. Chairman, because you are well aware that sugar is vitally important to the state of Hawaii. A total of 26,000 people owe their jobs directly or indirectly to the industry. It is the State's third largest source of revenue. It occupies three fourths of our farm land, or 185,000 acres, and unfortunately there are presently no good alternatives to this use. If we should cut the current sugar loan rate—and as I noted it would mean the instant demise of our industry it would double our State's unemployment rate to 11 percent.

It may interest you to know that on the islands of Maui and the big island, Hawaii, unemployment would exceed 20 percent, while on the island of Kauai it would reach 30 percent. Needless to say, we would have to expand our welfare roles and social services to deal with this new unemployment problem.

The Hawaiian sugar industry produces sugar at 18.3 cents a pound, which is about the world average, and we would do even better if it were not for the strength of the dollar abroad.

The State of Hawaii leads the world in sugar research, and we produce as much sugar with 8,000 workers as they do in the Dominican Republic with 80,000. Similarly we produce sugar as that below such countries as Barbados and Haiti, and yet we pay our workers a minimum of $7 an hour, which is almost as much as a Haitian worker earns in a week.

During the last 4 years the sugarcane industry has streamlined its industry and cut acreage by 12 percent. The number of workers employed in the industry has dropped from 8,600 in 1981 to a projected 7,500 by the end of 1985, while the costs of producing a pound of sugar declined nearly 10 percent. Only the most efficient companies are still in business, and all they are asking for is some measure of protection against unfair dumping of surplus sugar on world markets at distress prices, which you all know are currently at an all time low.

The sugar program does not guarantee the domestic industry profits. In fact, over the last 4 years, on operating revenues of approximately $400 million, the Hawaiian sugar industry lost $90 million in 1981, $2 million in 1982, while earning $29 million in 1983 and $21 million in 1984—before taxes I would like to note.

Furthermore, the program is noninflationary, increasing the loan rate only 1 penny over the last 4 years, which represents a rise of less than one-half of 1 percent compared to the national inflation rate of 3 to 6 percent.

Mr. Chairman, now we come to the matter of cost. First, the cost of sugar that we buy in the supermarket today is cheaper than it was in 1981 when, incidentally, when we had no sugar program. Sugar is cheaper under the sugar program.

Second, while the cost of sugar in New York City decreased by 4 percent last year, the price, for example, of 16-ounce sandwich cookies increased by 10 percent, the cost of ice cream went up 13 percent, and incredibly the price of colas rose by 12 percent. I say incredibly because during this period most soda manufacturers converted to high fructose corn syrup in formulating their soft drinks. As you know, this syrup is available in the United States for 25 percent less than sugar. Yet the price of soft drinks increased significantly.

Where are the savings that were supposed to have accrued from lower sugar prices? We all know there were none. Savings from cheaper sugar are not being passed on to the consumer. High sugar prices are used as an excuse for raising the cost of sugar-containing products in times of short supply, but somehow these prices do not come down when the price of sugar drops.

Mr. Chairman, it has been the policy of the United States for many years now to maintain a domestic sugar industry capable of producing a significant proportion of our sugar requirements. Obviously, without this domestic sugar industry, we would have to import all of our needs, thus increasing our trade deficit.

To preserve our domestic industry we need to protect it against unfair foreign competition. Without a domestic industry, we would become completely dependent on the whims of the world sugar market. The U.S. Department of Agriculture has warned us in testimony before the House Ways and Means Committee that American consumers would face price increases of several hundred percent if we became dependent on foreign producers.

I would like to close by reiterating that our domestic sugar industry is efficient. In fact, it is the most efficient in the world, and I believe it is worth saving. Otherwise I would not be asking you, Mr. Chairman, or this committee to spend 1 dime or 1 ounce of effort on its behalf.

Mr. Chairman, I thank you for your generous consideration and your support all these years. Thank you.

Senator ANDREWS. Thank you, Senator, for an excellent statement.

In developing the record, Senator, you are acknowledged to be one of the Senate's experts on foreign policy. You've been on our Intelligence Committee. You're the ranking member of our Foreign Aid Subcommittee. Very few people will realize what I would like to develop in the next moment or two with you. But I think it is a key item to get on the record because it moves the whole question of sugar and sugar prices from the production of the grower to the economic policy and the future of our Nation as a whole.

You pointed out in your statement, of course, that Hawaii can compete with a fair shake against almost any sugar-producing area in the world. It is true, it is difficult to compete against places where they pay their labor a dollar a day and let them sleep in the field for free, in which we've seen them sleeping in the past.

But basically isn't it true, Senator, that virtually all of the sugar that reaches consumers in this world travels in the region of from 25 to 32 cents per pound?

Senator INOUYE. At support prices, yes.

Senator ANDREWS. That's right. And there is only a small share of sugar, surplus sugar that becomes the dumped sugar that realizes this ridiculously low price, about 4 or 5 cents now as the world sugar price. It is the price for sugar that has no home.

Senator Inouye. I think the latest statistics would indicate that approximately 70 percent of all the sugar produced in the world is consumed at home, while about 20 percent is traded under special agreements or programs such as our quotas.

Senator Andrews. In other words, export agreements.

Senator Inouye. Then you have the European Economic Community with their own colonies and producing countries. The remaining 10 percent would be what we call the world sugar market. This is surplus sugar, sugar that is not consumed by the producing countries or sold under contract. All the producers want to do is get anything they can.

At the present time, the world price is one 3½ cents a pound. That's ridiculous. No one in this world can produce sugar at 3½ cents a pound.

In the European Community I believe the last statistics would indicate that their support prices were in the vicinity of 27 cents a pound as compared to our 18 cents.

There's no question that producers in the United States are the most efficient in the world. I think the United States, as a matter of policy, should once again reiterate the position that we have taken all these years that in the interest of our economy, we should protect our domestic industry from unfair foreign competition. All other countries provide some sort of protection, not at the rate we do, but at a much higher rate.

So, if we want to have some semblance of a sugar industry, if we don't want to be captive to this boom or bust world sugar market, then I think it is imperative that this Congress ignore the President's proposed sugar title and develop our own.

Senator Andrews. Well, Senator, one of the interesting things I've seen is that the dumped sugar on the world market today is not coming from the Carribean. It is coming from the European Economic Community. The Economic Community was a net importer of sugar in 1975 and it is now the dominant exporter in the world free market.

But it is exporting in the face of dumping. It is paying its growers from 27 to 29 cents a pound to produce sugar. Since they are somewhat long in their production, it is dumping the excess on the market in the neighborhood of 4, 4½ cents per pound.

But the European Economic Community has high production costs and no economic advantage in production relative to the major sugar-producing regions in the world. Its position as a dominant world exporter has been achieved only at great expense.

This is not our sugar producers competing against their sugar producers. It is our sugar producers competing against their Government.

But there's something else even more drastic, Senator, that I would like your comments on. That with the European Economic Community providing these large export subsidies to move sugar in the world markets, they have broken the world sugar markets to a totally ridiculous price of about 4 cents.

I have been told that the absence of EEC exports from the world sugar market would have a major impact on traditional sugar exporters, especially developing nations in Central American and the Carribean, those very nations that our country is concerned about, the very area of the world where we now have our problems with military intervention.

In fact, even with the large 1984 stocks, revenues of traditional sugar exporters in this tense part of the world would have been $2.6 billion higher had the EEC not been in the market in the damaging way they have been this past year.

So, Senator, based on your knowledge in the field of international affairs, what type of an impact would that $2.6 billion of lost earnings because of dumping by the EEC have in that part of the world?

Senator INOUYE. $2.6 billion in the economy of the United States might not mean too much. But in the economy in countries such as the Dominican Republic, Barbados, El Salvadore, Guatemala, it is like this. If we did away with the sugar title and permitted the dumping of surplus sugar into the world market, the Dominican Republic would have to compete with that. I don't think any sugar producer in the Dominican Republic is willing to share their sugar for 6 cents a pound. Knowing that even at the lowest rate at the Dominican Republic, it still costs them 15 plus cents a pound.

Senator ANDREWS. They've lost $2.6 billion from their economy.

Senator INOUYE. They were forced to.

Senator ANDREWS. So our NATO allies, the ones we're spending $136 billion out of our defense funding on the subcommittee you and I sit on, are actually by this type of arbitrary dumping handicapping us in the cause of world peace, world freedom.

Senator INOUYE. And increasing instability in that part of the world.

Therefore, for our national security and national economy, I think it is imperative that this committee support, and especially through your efforts, some rational program for sugar producers.

I would also like to note that in matters of world trade, it has been the general policy of the United States to prohibit dumping. For example, you would be prohibited from dumping goods in the State of Hawaii. And producers in Hawaii would be prohibited from selling goods below cost in California. On manufactured products, we prohibit the dumping of goods from Asia or from Europe.

So, I say if that is a general policy of the United States, why single out sugar and permit sugar to be dumped—knowing that the dumping of sugar would mean the instant demise of our domestic industry? Because otherwise we are going to be hostage to our so called European friends and other allies. They can decide what sugar will cost our consumers.

At least under our sugar title, the consumer is assured some stability in shelf price and availability.

Now, we cannot control the profit motives of sugar-using product manufacturers. For instance, I noted in my testimony that while the cost of sugar went down 4 percent, other goods went up. Ice cream went up 13 percent. I would like to hear these people try to rationalize and explain why when the price of sugar goes down and they use high fructose corn syrup, which is 25 percent less than sugar, everything else goes up. I am for competition, but something tells me when you add two and two, it becomes four. If you subtract one it becomes three, but somehow with companies that use sugar, when you subtract one it becomes five.

Senator ANDREWS. Very intriguing. As a matter of fact, Senator, if you ever find out why when the price of sugar went up and soda pop went up, it is amazing that the price of diet pop went up the same degree. When the sugar price came down, the price stayed up.

Again thanks for excellent testimony. Your colleague, Senator Matsunaga is here now.

Senator, do you have a statement that you'd like to submit?

Senator MATSUNAGA. Yes, Mr. Chairman, I do have a statement.[1]

Senator ANDREWS. Following your statement, Senator, we're going to introduce a panel of individuals who will testify on behalf of sugar.

STATEMENT OF THE HON. SPARK MATSUNAGA, A U.S. SENATOR FROM HAWAII

Senator MATSUNAGA. Thank you very much, Mr. Chairman. Thank you for affording me this opportunity to be here with my colleague, Senator Inouye and with two leaders of the sugar industry of our State who will later testify, Robert Hughes, president of the Hawaiian Sugar Planters' Association, and John Bunker, president of the industry refining and marketing cooperative, California & Hawaiian Sugar Co.

These two gentlemen have been associated with the sugar industry for all of their working lives and bring a rich background of experience and knowledge of sugar to your hearings here this morning.

Robert Hughes began his sugar career in 1939 on his native island of Maui and earned a bachelor of science degree in sugar technology from the University of Hawaii and pursued graduate work at Louisiana State University.

He rose through the ranks to the top factory post at Maui's Hawaiian Commercial & Sugar Co., the largest plantation in the industry, before joining C. Brewer & Co., Hawaii's oldest agricultural concern, where he eventually became its executive vice president. Upon his retirement in 1980 he was asked to head the Hawaiian Sugar Planters Association, the industry research and public policy arm.

Mr. John Bunker also has spent most of his life in the sugar business, following in the footsteps of his distinguished father, the late Ellsworth Bunker, who also served our Nation as an Ambassador to key legations under seven Presidents at critical periods in our diplomatic history.

John Bunker joined his father in the sugar industry upon completion of his education and service in the U.S. Army in World War II and the Korean war. Prior to joining California & Hawaiian, he served as president of Holly Sugar Corp., and earlier had been president of Great Western Sugar Co. His background in sugar refining includes the processing and marketing of both sugar beet and sugarcane.

Both Mr. Hughes and Mr. Bunker are uniquely qualified to represent the sugar industry at these hearings today. I am sure that they will acquit themselves well in responding to any question the committee may have.

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[1] See p. 494 for the prepared statement of Senator Matsunaga.

If I may say so, Mr. Chairman, I too have some experience in this field, and field experience at that. My parents were sugarworkers, and I grew up in a plantation community. As a young man, I worked in the sugarcane fields during summer breaks from school. Later I gained a different perspective on the industry as a lawmaker in Hawaii Legislature, and subsequently as a member of the House Agriculture Committee, before coming to the Senate.

I might point out that by working in the field I felt I was pretty much underpaid, 2½ cents an hour.

With this background, it is hard for me to imagine Hawaii without sugar, although this is the prospect we are now facing. Sugar took root in Hawaii well before the British explorer, James Cooke, first saw land off the shores of my home island of Kauai. It is said that a Chinese was the first person to extract sugar from cane, while a Caucasian or haole, as we say in Hawaii, John Wilkinson, and a Hawaiian chief, Boki of Oahu, were the first to attempt to cultivate sugarcane commercially, on a spread in Oahu's Manoa Valley. But it was in Kauai where the first recognized plantation enterprise was launched, near my birthplace, at Koloa in 1835.

From its earliest years, sugar has been the dominant agricultural industry of our islands. Its importance was immediately recognized by our earliest emissaries to the Hawaiian kingdom.

President Zachary Taylor sent a former Maine Congressman, Elisha Hunt Allen—I repeat, it was a Maine Congressman—Elisha Hunt Allen, to Honolulu as his port consul and diplomatic agent in 1849. Allen foresaw the importance of the emerging sugar industry and worked for the reciprocity treaty between the two countries, first as a U.S. consul and later the kingdom's ambassador to Washington, eventually achieving his goal in 1875.

In 1930, when I gained first-hand experience with sugar, the industry employed more than 40,000 hourly workers and produced approximately 1 million tons of sugar each year from some 250,000 acres.

Peak production of 1,235,000 tons was reached in 1966. Last year we produced 1,061,000 tons but with fewer than 7,000 hourly workers and from less than 200,000 acres of land. These results were achieved with a record yield of 11¾ tons of sugar per acre.

This is a remarkable success story, Mr. Chairman. The sugar industry in Hawaii produces more sugar per acre and more sugar per man hour than is produced anywhere else in the world. The Hawaiian industry has been the technological pace setter for the entire sugar world and is efficient by almost any measure.

One might expect, therefore, that with such a proud record it is an industry which can very well look after itself. That is not the case, however, unfortunately, and I want to tell you why.

Sugar is produced in many countries of the world but it is not produced without government involvement, government protection, and some form of government subsidy. This is a fact of life in the world's sugar industry.

In order to survive, the industry must be protected from unbridled competition from dumped foreign sugar which is surplus to the internal needs of the producing countries and their long-term export agreements. The so-called world market in sugar is a dump bin for homeless stock. No country produces at a cost less than even double today's so-called world market price of less than 4 cents a pound.

Why has production not been reduced in the face of prices so far below any producers' costs? There are several reasons. First, very little sugar is actually sold at that so-called world market price. Second, sugar is not a crop which a farmer can go into and out of on a short-term basis. As a result, supply is unresponsive to price, particularly on the down side.

Hence the market is characterized by long periods of low prices followed by a year or two of very high prices. The kind of stability provided by the current sugar loan program is therefore highly essential.

Moreover, in the world of today's overvalued dollar, American workers cannot be expected to compete with Brazilian sugar workers who are paid $75 per month or with Haitian workers being paid $3 a day in Dominican Republic cane fields.

The sugar program is not only essential to our sugar producers, but it is also most beneficial to American consumers. Not only do sugar prices remain depressed for long periods of time, but they also are volatile. Today raw sugar can be purchased for 4 cents a pound. But in the latter part of 1980 it cost more than 40 cents per pound. Demand is highly inelastic.

Consumers want their sugar, and when it costs less than a dime or more than 50 cents a pound, they use the same amount of nutritive sweetener. Our consumers cannot be made reliant on dumped foreign sugar today and yet avoid much higher prices tomorrow.

Critics of the sugar support program point to the shift from sugar to high fructose corn sweetener and claim the high sugar loan program is responsible. That is sheer nonsense as you well know. This shift was expected even before the current program was enacted.

With the development of 55 percent high fructose corn sweetener as a cheaper but acceptable liquid substitute for the soft drink industry, it was apparent that this market would be lost to the sugar industry. There was no price at which our sugar industry could survive and retain that market. The changeover to high fructose corn sweetener is now almost complete. Only in Hawaii do we find our Pepsi and Coca-Cola still sweetened with sugar, and I must say they taste much better.

The loan level for sugar is not the reason for the high fructose corn sweetener take over, however. It is clearly a case of lower cost domestically produced sweetener replacing sugar. Unless we have policies similar to those of the European Economic Community and some other sugar producing countries that limit HFCS imports and production, this was bound to happen.

Mr. Chairman, you may also hear that the sugar loan rate is too high as compared to other commodity loan rates. This too is not true. Opponents of the sugar program point out that the return above variable costs on an acre of sugar is higher than it is on oats, or corn, or wheat, or soybeans. The return over variable costs is higher but certainly not as a percent of those variable costs.

You would not expect to earn as much interest on a $100 investment in a money market account as you would on a $1,000 investment. Why should you then expect to earn as great a return on a $100 per acre investment in a crop such as wheat or oats as you do on an acre of hand sugarcane where you have invested more than $2,500 an acre in variable expenses?

I am sure you will hear other arguments against the continuation of the program, or at least of the current level. I can only tell you that it has been absolutely essential to the survival of the sugar industry in Hawaii and in the Nation as a whole.

That it is not excessive is evidenced by the fact that the industry is smaller today than it was in 1981 when the current program was enacted. It has been only a safety net, not a security blanket.

I hate to contemplate what my Island of Kauai would be like without sugar. More than 96 percent of the cropland of that beautiful "garden island," as we call it, is in sugar.

Adam A. "Bud" Smyser, the distinguished editor emeritus of the Honolulu Star Bulletin, wrote a column recently entitled "When the Plantations Close." He describes eloquently what has happened on the north coast of Kauai where plantations have closed down. He tells of the slow and partial revival of some of those former agricultural towns with an ersatz, touristy industry, and he pines a bit for the old.

In beginning the piece, Bud Smyser wrote, and I quote:

> I wondered on a visit last week if seeing north Kauai was a look into Hawaii's future. If President Reagan has his way with agricultural protection and supports, more sugar plantations on all our islands will be closing down in the years ahead. And a lot more former farmland will join the idle acres on north Kauai.

Some of Hawaii's former sugarlands have gone into tourist use, but three-fourths of the idle acres in Hawaii still lie dormant or are used merely for pasture. It is a grim prospect for those of us who have spent a lifetime with sugar, which has been responsible for greening so much of Hawaii's scenic acres.

I hope, Mr. Chairman, that members of this committee will not help to draw that grim picture so that 50 years from now we can celebrate 200 years of sugar in Hawaii as our farming contribution to the Nation, as foreseen by statesmen of foresight such as you. Thank you.

Senator ANDREWS. Thank you for an excellent statement. It will be a very important part of our record.

Senator Zorinsky.

Senator ZORINSKY. In the essence of time, I ask unanimous consent that my statement be included in the record.[1]

Senator ANDREWS. It will be.

Senator ZORINSKY. I compliment my colleagues for their statements on the importance of sugar to their State's economy.

Senator ANDREWS. I would also like to place a statement in the record from the North Dakota Lamb & Wool Producers. I also ask that a telegram from the Greater North Dakota Sugar Beet Growers Association following the remarks of the witness, Mr. Mike Warner, on the sugar program, be placed in the record.[1]

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[1] See p. 482 for the prepared statement of Senator Zorinsky.

Senator INOUYE. Once again, Mr. Chairman, thank you very much.

Senator ANDREWS. Thank you, Senator, both of you, for your excellent statements.

Senator MATSUNAGA. Thank you, Mr. Chairman, and members of the committee.

Senator ANDREWS. Our next group of witnesses we will do in a panel. Robert Hughes, who has been mentioned often and very well by our two colleagues; John Duncan, Dalton Yancey, John Thibaut, and T.V. Fischer.

Our colleague and member of the committee, Senator Hawkins, who is here to say good things.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator HAWKINS. I do not believe that anyone in the U.S. Senate understands farming better than our chairman. I have learned a lot from him. I have a lot more to learn from him, but I must say he is a great student of this subject.

I will give you my proxy, and you can represent me at the rest of this hearing. I have a conflict, like most Senators, and am interrupting another meeting to come over here to express to you my absolute support for the continuation of the sugar program.

You and I were key players in reinstating the sugar program in the Senate, and I think its success merits continuation. I look forward to us working together on behalf of the domestic sugar program.

We hear a lot about Latin America. There is no better friend of Latin America in the Senate than this Senator, however I feel that we should support our own industry first.

Dalton Yancey is here today. He knows an awful lot about this subject. He is executive vice president of the Florida Sugar Cane League. He is a Floridian. Few people know the sugar programs as well as Dalton.

A close friend of mine is also here, Fritz Stein, he has accompanied Dalton from Florida. Mr. Stein is a member of the State ASCS, is very active in community affairs, and is a third-generation farmer. He is accompanied by the dean of Washington representatives that we all know, Horace Godfrey.

Because I must leave, I have questions and I would appeciate it, Mr. Chairman, if you could ask them for me. I would also like to include in the record a hearing held by the cotton, rice, and sugar committees in Florida, Monday, March 25. They have a fantastic list of witnesses that would not have time to come here today, but it makes a good record for you.

Senator ANDREWS. Senator, we will make this a part of the record immediately following the statements and questioning of this particular panel.[2]

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[1] See p. 562 for the prepared statement of the North Dakota Lamb & Wool Producers, and p. 542 for the telegram from the Greater North Dakota Sugar Beet Growers Association.

[2] See p. 61 for the above-referred-to list of witnesses.

Senator **Hawkins**. I look forward to working with you, in front of the camera, and out of the range of the camera, on the continuation of this program.

Thank you very much.

Senator **Andrews**. Thank you, Senator.

Gentlemen, welcome to the committee.

Let me point out that each one of your statements has been given to the committee in the interest of making a record. Might I suggest that it might be better if you summarize your statement. The whole statement will appear verbatim, and then we will have time to get into some questions which will indeed, and in fact, make a somewhat broader record for the use of the committee, if that is all right with you.

Of course, we want to hear from Robert Hughes.

STATEMENT OF ROBERT H. HUGHES, PRESIDENT, HAWAIIAN SUGAR PLANTERS' ASSOCIATION, ACCOMPANIED BY JOHN BUNKER, PRESIDENT, CALIFORNIA & HAWAIIAN SUGAR CO.

Mr. **Hughes**. Thank you, Mr. Chairman. I will summarize as you have suggested.[1]

Thank you for this opportunity to appear before you. My name is Robert H. Hughes, and I am president of the Hawaiian Sugar Planters' Association, a nonprofit organization, representing all the sugar growers and sugar processors, their employees, and 150 family farmers in Hawaii.

A colleague, John Bunker, president of California & Hawaiian Sugar Co., is with me. He is sitting at the end of the table.

C&H, an agricultural marketing and processing cooperative is owned by the principal sugar farmers. C&H markets all Hawaiian sugar, refining 80 percent, and selling the remainder to gulf and east coast refiners as raw sugar.

Mr. Chairman, it is vital to our Hawaiian industry that the 1985 farm bill include a sugar provision similar to the sugar title in the present act. Hawaii produces approximately 17 percent of U.S. sugar production, 12 percent of sugar consumption each year. In Hawaii there are 7,000 people employed in sugar, and an additional 17,000 jobs are dependent on the industry. Most of the work force is represented by the International Longshoremen's & Warehousemen's Union. There are approximately 1,500 additional jobs in California at C&H Sugar Co.

Sugar is the second largest private contributor to the State economy. Seventy percent of cropland in Hawaii is devoted to sugarcane, and no economically viable crops have been found to take the place of sugar. Sugar provides 10 percent of State-generated fund tax revenues. The collapse of the industry in Hawaii would be economically devastating to the State. Unemployment would double, social welfare costs would increase to the extent that they could not be borne by the State.

Hawaii's sugar producers embarked upon a strenuous effort in 1982 to overcome disastrous financial losses experienced in the prior year. Production has since declined about 7 percent to slightly less than 1 million tons. More than 15 percent of sugarcane acreage has been abandoned. Strenuous cost reduction measures have been taken, reducing our cost of production from approximately 20.5 cents per pound to 18.3 cents in 1984. There is now stability within the industry, though determined efforts to reduce our costs must continue if we are to be profitable. All involved in the industry are confident of success of maintaining sugar in Hawaii if the present program is continued.

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[1] See p. 496 for the prepared statement of Mr. Hughes.

Since the adoption of the Farm Act in 1981, stability which had been absent following abandonment of the Sugar Act in 1974 has returned to the domestic sugar industry with an assured supply of sugar at prices lower than in the 2 years prior to adoption of the program.

There is strong evidence that it is in the national interest to maintain a domestic sugar industry. Today, the U.S. imports one-third of its sugar requirements from a market where highly subsidized sugar production is dumped, creating a demoralizingly low price. U.S. dependence upon this market, representing only 10 percent of world production, and subject to availability of supplies dependent upon political programs of other Nations, is clearly not desirable. Limited purchases from this market is in our national interest, and of major benefit to our traditional suppliers who received about $850 million additional income from their sugar sales to the U.S. market in 1984, an off budget foreign aid to our trading partners.

The administration has justified its proposed sugar program on the basis of consistency with other crop programs. That proposal would be a disaster to the domestic sugar industry in general, and to the Hawaiian sugar industry in particular. The proposed market-oriented agricultural policy completely disregards the reality of the price volatile trade in sugar where subsidies, quotas, price regulation, production control and other means are utilized by governments of surplus producing nations for their own ends, to the detriment of anyone forced to compete in the so-called world market. Adoption of a world market oriented sugar policy is a concept without merit, and a policy which can only result in the destruction of our domestic industry.

Ralph Waldo Emerson said: "A foolish consistency is the hobgoblin of little minds." If that may seem a trifle harsh, the proposal is at best one based upon the lack of understanding of the world sugar market.

Thank you, Mr. Chairman.

Senator ANDREWS. Thank you, Mr. Hughes.

Our next witness is Dalton Yancey, the executive vice president of the Florida Sugar Cane League.

Let me assure you that your entire statement will be made a part of the record. Summarize it in whatever way you wish.[1]

STATEMENT OF DALTON YANCEY, EXECUTIVE VICE PRESIDENT, FLORIDA SUGAR CANE LEAGUE, INC.

Mr. YANCEY. Thank you, Mr. Chairman.

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[1] See p. 501 for the prepared statement of Mr. Yancey.

My statement this morning is presented on behalf of not only Florida, but Texas sugarcane growers and processors. Florida produced 1,412,000 tons of raw sugar this year, which is mainly attributed to good weather more than any other factor.

Our profits are almost nonexistent due to the increased cost of production. For example, minimum wage rates for harvesting has been increased 28.6 percent by the Labor Department over the last 3 years. Costs of inputs continue to accelerate. Unfavorable weather in Texas resulted in a short crop of 81,000 tons, which is 70 percent of what was expected under normal conditions. Profits are nonexistent, and the growers will have to borrow money heavily to continue.

Florida's industry employs approximately 10,000 people, not counting another 9,000 seasonal cane cutters from the Caribbean area. Of the 10,000 domestic jobs, about 80 percent are unskilled or semiskilled members of minority groups.

Texas has 96 growers and employs 600 people on a year round basis and 450 part-time workers. The Florida and Texas sugar industries are efficient and are recognized by knowledgeable sugar experts as such.

The sugar provisions in the 1981 farm bill have provided a simple, no cost to the Government program which has been good for consumers and the users of sugar, and we look for an extension of that program.

This program has not guaranteed a profit, even to the most efficient farmers. I call your attention to this, so you might know the real truth instead of the false unsubstantiated statements made by opponents of the program, that the loan rate is too high.

The price for sugar during the 3 years that the program has been in existence is less than it was for the 2 years preceding the program. Yet the same opponents who falsely claim that the loan level guarantees a profit, have materially increased their prices resulting in greater profits.

Seventy-five percent of the sugar used in the United States is consumed in manufactured products. The manufacturers of these products, and refiners, most of them large corporations, complain loudly about sugar cane and beet farmers and processors while going merrily on their way to bigger and bigger profits.

For example, in a survey by Forbes magazine of 1,000 United States companies, the soft drink bottling industry, as a group, had the highest return on equity in the last 5 years, and a refiner of raw sugar was the leader in the food commodity group.

Mr. Chairman, if the price of sugar has been less for 3 years than for the 2 years prior to the program, and the price for soft drinks, ice cream, candy, and cookies are higher, then you must conclude one of two things. One, either the consumer is being ripped off because of higher profits for the manufacturers, or other ingredients, not sugar, caused the increase.

Food is a better bargain in the United States than any other country in the world, even with some food manufacturers, processors and handlers making tremendous profits. A United States worker only has to work 1½ minutes to buy a pound of sugar in the United States. Contrast this with Common Market countries where the average is almost 5 minutes, and in some Central and

South American countries, where sugar is produced, it is as high as 20 to 30 minutes. Sugar is a good buy in the United States.

If the domestic program were to be eliminated, or the loan level lowered, the major beneficiaries would be the European Economic Community.

Mr. Chairman, I have heard that many of the opponents of the sugar program are saying that they do not wish to eliminate the program, merely reduce the loan rates. To me that is about like the fisherman preparing to clean a catfish, and he says, be still, all I am trying to do is gut you.

Seriously, this proposal needs to be exposed for what it is, simply a means to increase the profits of the now profitable refiners and users of sugar.

I challenge them to tell you and the public the cents value of sugar in each of their products and to pledge to you something they have refused to do in the past—that is, that they will reduce the price of their products and by how much if the loan rate is lowered.

Since the sugar program is erroneously charged as costing consumers an outrageous amount of money, maybe you should include a proviso on the sugar section tying the cost of sugar-containing products to the price of sugar.

Thank you very much.

Senator **Andrews**. Thank you very much.

Our next witness is John Thibaut, president of the American Sugar Cane League of Louisiana.

It is good to have you here. Let me assure you that your statement will be included in its entirety in the record. You can summarize it, if you wish.

Mr. **Thibaut**. Thank you, Mr. Chairman.

Senator **Leahy**. Mr. Chairman, I request permission to provide a statement for the record.[1] I may have questions for some of these witnesses. I met some of them before, and I have had a chance to have discussions on some of these issues.

Senator **Andrews**. You certainly can. Glad to have your statement. The questions can be communicated to the individuals. Hopefully we can get the answer back within a 2-week period, so that we can close the record.

STATEMENT OF JOHN E. THIBAUT, PRESIDENT, AMERICAN SUGAR CANE LEAGUE OF THE U.S.A., INC.

Mr. **Thibaut**. Thank you, Mr. Chairman.

Since I do not have a couple of Congressmen here today to introduce me, I will have to kind of make my own case.

I am John E. Thibaut.[2] I reside in Napoleonville, LA. I am a sugarcane grower, and a third-generation sugarcane grower in the same area. I am president of a cooperative that processes sugarcane into raw sugar.

I am appearing today as the president of the American Sugar Cane League, which is a nonprofit organization, organized to protect the welfare of Louisiana sugarcane growers and processors.

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[1] See p. 484 for the prepared statement of Senator Leahy.

[2] See p. 510 for the prepared statement of Mr. Thibaut.

Our membership includes all 21 Louisiana raw sugar plants and over 97 percent of the more than 3,000 sugarcane growers and landlords of Louisiana, and I am speaking today on their behalf.

A sugar title was wisely included in the Agriculture and Food Act of 1981. The nonrecourse commodity loan program for sugar has worked extremely well for producers, consumers, and taxpayers. Import duties, fees and quotas have been used to ensure the effectiveness of the program.

Since the program was put into effect, no loan sugar has been forfeited to the CCC, it has been simple to operate, and the program has not cost any tax money. In fact, the import fees and duties on foreign sugar have helped to reduce the Federal budget deficits. Approximately $450 million has been collected in duties and fees on imported sugar in the last 3 years. In addition, sugar producers have paid about $37 million in interest on CCC loans.

The sugar program has been anything but overgenerous. Two Louisiana processing plants and a number of growers have been forced out of business by economic pressures since the 1981 farm bill was passed.

The next part of my statement refers to the administration's program, and you all know about that, and the details of it, so I will pass by that, and just say if that program were passed tomorrow, no sugarcane would be planted in Louisiana this fall.

Since our crop continues to produce for 3 years, some processing plants might continue to operate during 1986, and possibly in 1987. After that, the sugar industry would cease to exist. Over two centuries of Louisiana sugar producing history would come to an end.

Louisiana produces enough sugar to fill the needs of over 13 million Americans. Without Louisiana's production, these Americans would have to depend on unstable foreign sugar suppliers, such as South Africa, the Philippines, Zimbabwe, El Salvador, and Haiti and other countries that you are aware of.

Although I speak only for Louisiana, I am confident that most, if not all, other U.S. sugar producers would be forced out of business by this proposal. By the end of this decade, the United States could be virtually dependent on foreign suppliers for our sugar needs, and our balance of trade would slip further into the red.

The sugar program has worked successfully for sugar producers. Just as important, however, is the fact that the program has helped consumers also.

You asked earlier that the program be made for consumers as well as suppliers here today. We feel that consumers have a close at hand supply of sugar under this program we have now.

The price of sugar has stabilized under the sugar program at a level that is fair to producers and consumers.

The two Senators from Hawaii made very good points on the effects of the sugar markets fluctuating wildly without a program, and referring to the increase in product prices that went up as the price of sugar went down. So I will not belabor that point, either.

Although I would like to say that consumers do have a vested interest in the sugar supply and stable prices. They will not endure such stability under the administration's proposed program, or under the situation that existed for several years prior to the same program that is now in effect.

We currently have a program that is working efficiently and effectively at no cost to taxpayers. I strongly recommend that this program be continued, with reasonable improvements and a lower rate.

Thank you.

Senator **Andrews**. Thank you.

Our next witness is Mr. Fischer from the Corn Refiners Association.

Again let me assure you, sir, that your statement that we have will be placed in its entirety in the record. By summarizing you give us a greater chance to make a more complete record with questions.

STATEMENT OF THOMAS V. FISCHER, EXECUTIVE VICE PRESIDENT, A.E. STALEY MANUFACTURING CO., REPRESENTING CORN REFINERS ASSOCIATION, INC.

Mr. **Fischer**. Thank you, Mr. Chairman.

I am Thomas V. Fischer, executive vice president of A.E. Staley Manufacturing Co. I appear before you today on behalf of the Corn Refiners Association, Inc., and serve as chairman of its committee on agricultural policy.

The list of association membership is appended to our written testimony.[1] The association represents the Nation's corn refining companies, producers of starches, sweeteners, feeds, oil and ethanol from U.S. corn.

Corn growers and refiners today are full partners in America's agri technology development. In fact, corn refining is the only current growth market for U.S. corn farmers at a time when market expansion is critical. Last year, our industry purchased nearly three-quarters of a billion bushels of U.S. corn. By the end of the decade, we hope to be using 1 billion bushels or more. Corn refiners today supply nearly 50 percent of all nutritive sweeteners consumed in the United States. Through extensive research and major capital investment, we have been able to save the Nation's food and beverage producers billions of dollars.

Today the same research teams who are responsible for the development of corn sweeteners are turning their attention to the emerging field of biotechnology, exploring products which may revolutionize the production of medicines, fuels, clothing, and shelter. We have only begun to scratch the surface of these potential contributions to our economy.

However, Mr. Chairman, this remarkable progress could be stopped in its tracks, if the domestic sweetener industries are forced to enter a world sugar market which operates without regard to any economic rationale. For this reason, we would like to urge that the present sugar program be continued in the 1985 farm bill.

As pointed out earlier, the current sugar program has worked exactly the way in which it was designed. It has operated at no cost to the Government, and has achieved the objectives established by Congress.

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[1] See p. 511 for the prepared statement of Mr. Fischer.

The program has enabled the domestic sugar industry to survive without encouraging expansion. In addition, it has insulated corn growers and refiners from the dumping of highly subsidized world sugar. The sugar program has encouraged the continued move toward self-sufficiency in our sweetener supplies. In order to continue this trend toward self-sufficiency, it is vital that we maintain domestic sugar production, to serve the large market for dry sweeteners which cannot be produced from corn. From the standpoint of foreign nations which export sugar to the United States, the program has provided a premium outlet for sugar which would otherwise have to be sold at ruinous world prices.

Mr. Chairman, we in the corn refining industry are an advocate of free and fair trade. We would be glad to compete on a value basis with sugar from any nation. After all, we are the world's lowest cost sweetener producer. However, we are neither willing nor able to compete with Government-supported sugar producers who are encouraged to dump their production at prices which have absolutely no bearing to production costs.

Mr. Chairman, as you pointed out earlier, absent foreign subsidies there would be no need for a U.S. program. There are numerous studies which have indicated that if just the EC itself ceased its export and production subsidies, the world price of sugar would rise above the levels in the current U.S. sugar program today. Of course, we understand that the EC is not alone in its subsidy practices. There also have been comments about the allegations of opponents of our domestic sugar program, contentions that the program increases consumer costs $3 billion a year. This is simplistic mathematics with no acknowledgment of the many complex factors which dictate how food and beverage are priced. As I believe has been pointed out earlier, sweetener costs have declined over the last 4 years while the wholesale prices of sweetener-containing products have risen by nearly 24 percent according to the Department of Agriculture, no doubt reflecting increased labor, packaging, promotion, and other costs.

I think also adequate comment has been made regarding foreign trade. As we know, the program has created a premium market for our long-term trading partners, and especially lesser developed nations, those in the Caribbean, such as the Dominican Republic, Guatemala, Panama, Costa Rica, and others. Studies have shown that those countries have gained $300 million or more in export revenue as a result of our current sugar program.

I think, second, and most important—I would like to stick to our text here—our sugar program has sent a clear signal to foreign governments that the United States will no longer permit its markets to be used as a dumping ground, its industries to be destroyed, or its jobs lost to unfair competition. To weaken this signal would only encourage continuation of practices whose negative impact goes far beyond sugar, to damage every part of American agriculture.

Mr. Chairman, we strongly oppose the sugar provisions contained in the administration farm bill, S. 501, for two reasons:

First, the so-called market orientation contained in these proposals is simply an arbitrary reduction in the support level. Adoption of the administration's program would result in increasing reliance on foreign sweetener supplies; it would reduce employment in the domestic sweetener industries; and it would shrink an important growth market for the U.S. corn farmer. We do not feel that these are results which Congress should endorse in farm legislation.

Further, we are not convinced that adoption of this plan would enable the administration to lift import quotas.

Second, the administration bill contains target price provisions for sugar which have long been opposed by the corn sweetener industry. Although administration budget documents indicate that it is not their intention to utilize target price payments to support sugar producers' incomes, we oppose inclusion of the authority for such payments. Use of deficiency payments would give one domestic sweetener producer an unfair advantage over another. A target price program for sugar would emulate the practices of foreign nations, encouraging sale of domestic sugar below production costs. Sugar payment plans offered by previous administrations have not had the support of sugar producers, corn refiners, Congress or the courts, and we would urge that you reject this plan.

In summary, Mr. Chairman, we appreciate the opportunity to present these views, and we would be pleased to answer any questions you or the committee might have. Thank you.

Senator **Andrews**. Thank you very much.

Mr. Bunker, I understand you are kind of an anchor man for questions.

Mr. **Bunker**. Yes. I do not have a statement.

Senator **Andrews**. Thank you.

Mr. Hughes, what is cost production like today?

Mr. **Hughes**. In 1984, it was 18.3 cents per pound.

Senator **Andrews**. Senator Inouye and I were discussing the Economic Community and how they support their sugar producers.

What is their mechanism and what kind of per pound subsidy are we dealing with?

Mr. **Hughes**. To the best of my knowledge, it is between 27 and 30 cents per pound paid to the farmers. The price within the Community itself at a retail level is somewhere around 40 cents per pound. The export amount is allocated over short periods, on a weekly basis. An authority is given to export sugar into the world market.

It is that tremendous volume of EEC sugar, the largest exporter to the world market, that has caused the price to be in the 3½-cent range.

Senator **Andrews**. You think that as a net effect of these policies, the world price is really at a dump price where really 90 percent of the sugar that is consumed is at a much higher price?

Mr. **Hughes**. Absolutely.

Senator **Andrews**. If the Economic Community was not encouraging sugar production and exporting its surplus, what would world prices be today? The rest can comment on that also.

Mr. **Hughes**. John.

Mr. **Bunker**. Well, I think that is a very difficult question to answer, Senator. But probably higher than our current loan rate. We believe it would probably be in the range of 18 cents plus.

Senator **Andrews**. Somewhere then in the range between our support rate, which is around 18 cents, and the support rate of the Economic Community which is between 27 and 30 cents, and/or the support rate of the Soviet Union which puts on Cuban sugar, which is where, about 32 cents per pound?

Mr. **Hughes**. Thirty-five, I believe.

Senator ANDREWS. So the price would fall somewhere in that range.

Do you have any estimates as to the cost of production in Europe, any of you? How much does it cost the average European producer, beet sugar producer, to produce?

Mr. HUGHES. I can only speak to a vague reference. I do not have hard data on this. But I was informed that it is in the range of 22 to 25 cents a pound.

Senator ANDREWS. As the cost of production?

Mr. HUGHES. Yes.

Senator ANDREWS. So their cost of production is significantly higher than the loan price which we have had or support price we have had in our country?

Mr. HUGHES. That is my understanding.

Senator ANDREWS. In each of your States, has there been any increase in sugar acreage or sugar producers, since passage of the 1981 act? I ask that question because often when an industry receives protection from imports, it attracts increased investment and increased production domestically.

Have you seen that kind of increase in any of your States?

Mr. YANCEY. Mr. Chairman, we have had an increase in Florida. The main reason for our increase has been to lower our unit cost from an efficiency standpoint. We had capacity in the seven sugarcane mills which are in Florida that could take a few more units. So, in order to lower our cost and become more efficient, we have tried to run as many pieces of sugarcane stalks through the mills as we can. We have reached the capacity level of these mills now.

Under the current program, it certainly does not justify any more expansion, particularly a sugarcane mill, because of the tremendous amount of capital that is required to build a sugar mill.

Senator ANDREWS. So there has been no increase in processing capacity?

Mr. YANCEY. We have had some efficiencies in the existing facilities.

Senator ANDREWS. What about in Hawaii?

Mr. HUGHES. In Hawaii, we have had one entire sugar farm go out of business, which includes the processing facility with it. About 500 employees were terminated as a result of that shutdown. About 15 percent of our acreage has been idled, and again for cost efficiency reasons. Our production has gone down from approximately a 1,040,000 tons on an annual basis to 975,000 tons projected for this year. We anticipate holding at about that level unless there is a collapse of the industry.

Senator ANDREWS. If the Congress were to pass the administration's sugar program, what would be the effect on each of your groups?

Mr. HUGHES. Well, in Hawaii, if the administration proposal were adopted as the law of the land, I would believe that the Hawaiian industry would liquidate as soon as possible.

Senator ANDREWS. Mr. Yancey.

Mr. YANCEY. I am sure we would see the same thing in Florida. We expect, if we sell our sugar for what we intend to do this year, economic impact on our State of above $1.35 billion. Right now when we have the situation we are in, we are really kind of exchanging money. You are taking what you get and paying employees and buying machinery and parts and so forth. So it would not only have a tremendous effect on growers and mill operators in Florida, but it would be a chain reaction to not only the lake community, around Lake Okeechobee, but the communities of West Palm Beach, Tampa, and others as well.

Senator ANDREWS. What would happen in Louisiana?

Mr. THIBAUT. As I stated in my statement, I think that the sugarcane industry in Louisiana would last approximately 2 years, and that would be just to phase out the cane that is already planted.

In answer to your previous question, the Louisiana sugar industry has not grown. As a matter of fact, it has gone from a little over 300,000 acres a few years ago to approximately 250,000 acres. Now, on those 250,000 acres, when we have somewhat better production—and the mills, there are two less mills also, but the remaining mills for grinding the cane that has come from increased production on less acreage, we are producing roughly the same amount of sugar in good years.

Senator ANDREWS. ~~Well, if~~ in 2 years the production of sugar was terminated in Louisiana, what would farmers grow on that land?

Mr. THIBAUT. Well, some would turn probably to soybeans. We have some soybean production in our area. The areas that have gone out of sugarcane production are more on the fringes of the area, and have gone basically to soybeans. I believe that the balance of the industry would go to that.

Senator ANDREWS. What would happen in Florida, which crops would you grow?

Mr. YANCEY. We have a fairly large winter vegetable operation in Florida right now. But it only amounts to about 5 percent of the total land area. We have about 20,000 acres.

I will give you an example. This year we have 6,200 acres of lettuce. Just 2 or 3 hundred more would totally demoralize that market. So whatever crop we would go into would demoralize that market. It is not that we are not good farmers. We can grow a variety of things in the area because it is a very rich soil and the climate is normally warm. But the fact is there is not a market for the other crops.

We can grow rice, but there is not a market for rice. We can grow winter vegetables, but that would demoralize the growers who are in that business.

Senator ANDREWS. What about Hawaii?

Mr. HUGHES. There are three crops that would have a small incremental increase depending upon the market, fresh pineapple, macadamia nuts, and guava. The markets for those crops would not accommodate more expansion than 4 or 5 thousand acres out of our 185,000 acres.

There probably would be some expansion of housing and urban conversion on the fringes of Honolulu. The rest of the land would be used by subsistence cattle farmers.

Senator ANDREWS. Thank you very much.

Mr. Fischer, what adjustments would your firm undertake if the administration's proposal passed?

Mr. FISCHER. Well, I think, as I mentioned earlier, Mr. Chairman, we would have to cut back into research and development, try to run as tight a ship as we can. I think, as I mentioned before, largely the replacement of sugar by fructose syrup has been accomplished. We are currently doing a lot of work in carbohydrate chemistries. We are trying to develop petrochemical replacements.

I think we mentioned our need for additional corn that we are anticipating, not for sweeteners, but for products such as petrochemical products. We are very enthusiastic about that.

But it is sort of like the work we did with high fructose syrup. There is a lot of front-end investment, and we would not be able to continue that.

As to the actual production of our sweeteners, I think that would depend on individual plant locations and their economies vis-a-vis one another. But clearly we would have to scale back and terminate the very extensive research and development and try to broaden our base a little more. It is critically important to the corn growers.

One digression I would like to make if I may. Studies we have made show that we have a competitive sugar industry here in the United States. I think some of the statistics have been exacerbated in recent years by the tremendous strength of the dollar. So everything is almost denominated in the United States cents per pound. But as you look at the practices of EC where they rebate the terms of EC use, they have continued to increase their support to their farmers, sugar growers. Even though that might look that they have done less in terms of dollars, they have done more in terms of local currencies. So I think sugar growers have it unfair because of the very strong dollar. I think more of a representative currency balance would show the industry to be very competitive.

Senator **Andrews**. Do you have any feeling for what effect the administration's proposal would have on foreign prices?

Mr. **Fischer**. Well, to the extent that we have to curtail operations and plant less corn, it would obviously have an adverse effect and cause the economy to drop. In the studies which we have made, we use maybe 7 or 8 percent of the corn crop. You have to remember that over 50 percent of the corn is consumed on the farms. So our industry is a major buyer of cash corn. Numerous studies have been made that any changes in the order of magnitude of several million bushels or more could have twice the impact of 20 cents a bushel or more. So obviously any decline in our purchase given the outlook for corn supply would have adverse effect on the corn farmers.

Senator **Andrews**. Would high fructose corn syrup eventually replace sugar?

Mr. **Fischer**. Obviously we as an industry have worked on replacement of sugar used in a dry form. To be frank, we do not have an economic way to produce it. That is why we believe it is important we have a strong domestic sugar industry that can continue to serve that significant portion of the market that cannot be replaced by corn.

Senator **Andrews**. Thank you very much, gentlemen.

Senator Melcher.

Senator **Melcher**. I gather that the testimony advocates maintaining the same sugar program we have now. I call it the notch-up quarter of 1 cent per year.

Mr. **Yancey**. We have already been asked that question. And it has been significantly answered.

We believe there should be an increase in the loan rates in the future. For example, in the past four crops, we have had an increase of 1 penny during the entire period of that time, while that represents less than 5 percent over inflationary periods around 18 percent. While we certainly do not look forward to high inflation in the next 4 years, we hope we do not have it, we have increased costs too. Our labor costs in Florida in that same period have increased 28 percent during that same period. So we would like to see a modest increase.

Senator MELCHER. A 1½-percent raise increase per year?

Mr. YANCEY. Yes.

Senator MELCHER. Is domestic consumption now around 50 percent of the quantity domestically produced?

Mr. YANCEY. It has increased now. I think its production has remained about the same, or actually a little lower than it was when the program went into effect. But since the total consumption of sugar has decreased, the percentage has increased while the production has actually decreased.

Senator MELCHER. Are we importing around 46 percent or 47 percent? Is that about right?

Mr. YANCEY. About one-third.

Mr. HUGHES. About one-third, I think, Senator.

Senator MELCHER. Less than 40 percent?

Mr. HUGHES. Yes.

Senator MELCHER. Would it hurt us to have any reciprocal agreements on that? If we did, would it harm the domestic industry? Let me point out just as an example, the million tons a year we import from the Philippines. We could sell them a little more wheat on a reciprocal basis, involving no cash in dollars, if we took a little bit more from them.

Mr. YANCEY. It certainly would not hurt the United States to get a little tougher on its trade policy. You know, there is a lot of talk about market oriented programs and free trade. You are well aware that sugar, as well as any other commodities, we are not playing on the same table that everyone else plays on, and all things are not equal. We would like to see some fair trade.

Senator MELCHER. Thank you.

Senator ANDREWS. Thank you, Senator.

Thank you, gentlemen. Your testimony has been very helpful.

[The following information was furnished by Senator Hawkins, see p. 49 for oral reference.]

COTTON, RICE, AND SUGAR, SUBCOMMITTEE, PUBLIC FIELD HEARING, CLEWISTON, FL, WITNESSES

1. The Honorable J. A. G. Smith, Minister of Labour, Kingston, Jamaica
2. Panel: Mr. Dalton Yancey, Executive Vice President, Florida Sugar Cane League, Clewiston, Florida; Mr. Fritz Stein, sugar cane grower, and President, Florida Sugar Cane League, Belle Glade, Florida; Mr. Fred Hill General Manager, Florida Sugar Marketing and Terminal Association, Riviera Beach, Florida; Mr. John Boy, President, U.S. Sugar Corporation, and Chairman, Legislative Committee, Florida Sugar Cane League, Clewiston, Florida.
3. Mr. Ted Madden, Representative for the International Association of Machinists, Cocoa Beach, Florida
4. Mr. Miller Couse, Executive Vice President, First Bank of Clewiston, Clewiston, Florida
5. Dr. Effie C. Grear, Principal, Glades Central High School, Belle Glade, Florida

6. Mr. Ed Cox, Special Assistant to Doyle Connor, Commissioner of Agriculture, Florida

7. Mr. David Beardsley, sugar cane grower, Beardsley Farms, Clewiston, Florida

Senator ANDREWS. Our next panel consists of a previous colleague of mine, Birch Bayh, counsel to the Sugar Users Group, Washington, DC, who is accompanied by Dr. Ronald D. Knutson, professor, Agricultural & Food Policy Center, Texas A&M University, College Station, TX. Robert W. Delauter, secretary, treasurer and manager of the Coca-Cola Bottling Co. of Portland, Portland, IN. Nicholas Kominus, president, United Sugar Cane Refiners' Association, Washington, DC, and Ellen Haas, executive director, Public Voice, Washington, DC.

Let me again assure you your prepared statements will appear as though they had been given in total in the record. Summarize them any way you wish.

We are glad to have you here today.

STATEMENT OF BIRCH BAYH, COUNSEL, SUGAR USERS GROUP

Mr. BAYH. Mr. Chairman, we appreciate very much the opportunity to share our thoughts with you. I still have a bit of recollection of how you tried to put a size 10 foot into a size 7 shoe. I would like to ask that my statement be placed in the record.[1]

Senator ANDREWS. It will be in its entirety.

Mr. BAYH. I should point out that we have been working with the Soft Drink Association. Perhaps I should identify the entity, the consortium of associations, including the soft drink, ice cream, confectioners, chocolate, bakers, and crackers, which together constitute industries that use about 70 percent of the sugar in the industry part of our economy.

We have been working with a number of other groups who are directly related to the use of sugar as the planner, which Ms. Haas is a representative of one of the oustanding collections of individual consumers throughout the country. I would like to point out constituents of mine, soft drink hometown family business as a soft drink manufacturer in Portland, LA.

We hired, Mr. Chairman, Ronald Knutson, together with others, which he will identify, to try to find out just exactly what the price situation was. Naturally as users, I suppose it is fair to say it is in our interest to have lower prices. We have tried to be realistic and recognized that that can be self-defeating when carried to its extreme. So we asked Professor Knutson and others who have participated in this to try to put together some facts and figures. I was reminded, as I listened to the previous witnesses, all of whom are testifying as they saw the problem, that we used to have a member of the State legislature that every year would find some use for the same story, and it was a little relevant. How the blind man responded when he was asked to describe an elephant. Obviously when he felt the trunk, it was one thing; if he felt the side, it was something else.

So we look at the problem a little differently than those who have preceded us.

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[1] See p. 513 for the prepared statement of Mr. Bayh.

You are both in the enviable and uneviable position of trying to rationalize the differences and come up with a policy that makes sense.

We have traced four basic principles, and let me just touch on those and then yield.

We believe that the sugar program should be market oriented, looking at this from a total agricultural picture, which I guess as a farmer myself I am of the opinion that the way we really saw the farm problems is taking advantage of our productive capacity to sell more crops all over the world. We cannot ignore what other countries are doing, nor do we try to apologize for the kind of policies that the EC is following right now. But to respond to that in a way that makes it more difficult for us to have access to foreign markets I think would be self-defeating.

In 1981, when this policy of the sugar program was established, a certain level of foreign imports of sugar into this country was established. In that short period, that level has decreased 60 percent. That means we have 60 percent less resources out there to buy corn, soybeans and wheat and other farm products.

But Brazil is the best example I can think of right now. A little earlier, people with whom we have worked get a perspective of the international market and what the quotas have done. But if you look at Brazil alone, in 1981 they exported into the United States 1.9 million tons of sugar, amounting to about $388 million. They imported 38 millions tons of wheat that was produced at this country valued at about $639 million. With the cut in quotas this year, they have been able to export 368,000 tons of sugar into this country and about $145 million, less than half of what they recognized before. It seems to me that it is realistic to expect that they are not going to be able to buy as much wheat and corn and soybeans because of that lack of dollar capability.

The second thing that concerns me about the quota system is that it creates an incentive for other nations to peek at our sugar costs and take retribution on our corn, soybean, and wheat markets, and deny access to those markets because of what we do to sugar. The second principle is one of equity. We have about 12,000 sugar producers, and I think it is only wise and prudent to be concerned about them. But I also think, Mr. Chairman, you have to be concerned about the impact the sugar policy has on the wheat, soybean, and corn farmers. We have to see that the Government program as it is established provides the same return of investment and the same value across the board.

If one looks at variable costs, it is rather obvious that the return for sugar, whether it is in the beet areas or cane areas, is significantly higher than comparable crops that can be grown there and other places in the country.

I was not surprised, I guess, to see that despite that disparity, that the folks that preceded us here think that the loan rate should continue to increase at the same time everybody is trying to get the cost of those other farm programs down.

Senator ANDREWS. Not everybody.

Mr. BAYH. I think that is a fair response.

The third principle is that we think it is important to be fair to consumers as well as producers, and not produce economic distortions within the marketplace. I think it is fair to say that the high price of sugar has made it possible for major inroads into the sweetener market by high fructose that would not have been available if the price of sugar had been less.

I listened to Mr. Fischer talk about the research dollars. They are spending as much money as they possibly can. Whether they will be able to do it or not, but you can bet your bottom dollar they would like nothing better than to be able to develop crystalline HFCS to totally replace sugar that is now being used.

So, it seems to me, we have to take that into consideration as to what is really helping those who produce sugar today. A 1 cent price increase in raw sugar results in a change of $250 million for consumers, $300 million at the retail level by the time you see what happens in the market there.

I will be glad to respond to questions you may have about the price of products if you care to direct them later on. But it seems to me that we do not support 4 cent raw sugar, neither can we, under the rationale of a program that is administered in such a way that right now it is 17¾, going up to 18 by the time it is administered with the MFP, add another 4 cents to the price. It is paid by the consumers. We would like to urge you to pay attention to that.

The issue, let me just touch on as far as the principle is concerned, is we think it is important that the agricultural policy not work its cross-purposes with foreign policy and with all respects. I guess we reach a different conclusion, you and our friends from Hawaii about the impact of the present program. I notice that the witnesses here from the Dominican Republic, and I would like to call your attention to the statement made by the Ambassador of the Dominican Republic. He said if there is no way found to change the actual sugar policy, the projection of them will soon break down the sugar producers in neighboring countries, like the Dominican Republic, with all the consequences that this could entail for the region.

If I were a friend of the United States in Latin America, I would like to have quotas, I would have to like a support price and a large quota.

The fact of the matter is the quotas have been going less and less, have been getting smalier. At the rate we are going, although we are providing a higher than world price support, the quotas are getting down to the place they will be of no benefit because they will not exist. So, I would hope that the committee might give some attention to that.

Again I know you have a problem rationalizing all the diverse views. But we appreciate the opportunity to be here.

Senator **Andrews**. Our major challenge is to get all the views on the record so we have them in the record of the full committee.

Dr. Knutson, we will hear from you. Do you have a statement?

STATEMENT OF DR. RONALD D. KNUTSON, PROFESSOR, AGRICULTURAL & FOOD POLICY CENTER, TEXAS A&M UNIVERSITY

Dr. **Knutson**. Yes, I do.[1]

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[1] See p. 516 for the prepared statement of Dr. Knutson.

As was indicated, I was retained by the Sugar Users Group to conduct an analysis of the impacts of the current sugar program and its alternatives on the various segments of the sugar industry. I also hold the position of professor in the Agricultural & Food Policy Center in the Department of Agricultural Economics at Texas A&M University.

Our analysis is that while past sugar programs were undoubtedly well intended, they are destroying the sugar industry. While total demand for sweeteners has remained remarkably stable, about 120 pounds per capita, sugar consumption has declined 45 percent, from a high of 102 pounds in 1972 to 67 pounds in 1984. The stark reality is that sugar has become a declining industry, largely as a direct result of current and past sugar programs.

Because of the relatively high price support maintained for sugar, corn sweeteners' market share has increased from 13 percent in 1972 to 44 percent in 1984. As long as there is a substantial price differential between sugar and corn sweeteners, food manufacturers will continue to substitute HFCS for sugar. The current sugar price support will inevitably lead to competitive crystalline corn sweeteners. A major goal of U.S. sugar policies in the 1985 farm bill should be to make sugar prices more competitive with HFCS. Without a more competitive price relation, it is easy to visualize the sugar import quota falling to near zero at the time the next farm bill is debated in say 1990. At that point, the quota leverage to raise sugar prices will have vanished.

A reduction in the sugar price support can be accomplished in a number of ways. If the price support were inadvertently lowered in the absence of target price production, U.S. sugar producers would be adversely affected. However, there is substantial evidence that cane sugar beet production at current support levels has been generating substantially higher returns than other commodities. For example, USDA cost of production data indicates that in the Red River Valley, while the return over cash cost to corn was $121 an acre in 1982, it was over $400 an acre in the case of sugar. This higher return translates into 7 cents per pound of sugar.

Lowering the price support for sugar by 7 cents per pound would put sugar in approximately competitive with HFCS. Without question, sugar producers would be adversely affected by reduction in sugar price support. In fact, those most adversely affected would be from my part of the country, Texas. These adverse effects could be reduced by providing direct payment target price protection. While such protection would cost taxpayers as much as $750 million, consumers are now paying as much as $3.2 billion in higher sweetener costs as a result of the current sugar policy.

Interestingly, HFCS producers currently receive more benefits from sugar programs than do sugar producers. Let me repeat that. HFCS producers currently receive more benefits from the sugar program than do sugar producers. The sugar program has become HFCS program.

Without the sugar program, the U.S. sugar consumption would have been 50 percent larger than it is today. A viable sugar industry could have been maintained by using the same program concepts as in other commodities without a reduction in either imports or production. The long-run consequences of current sugar programs for overall sugar demand cannot be ignored.

Thank you.

Senator ANDREWS. Thank you, Doctor.

Our next witness is Robert Delauter, representing the National Soft Drink Association.

STATEMENT OF ROBERT W. DELAUTER, SECRETARY, TREASURER-MANAGER, COCA-COLA BOTTLING CO. OF PORTLAND, PORTLAND, IN, REPRESENTING THE NATIONAL SOFT DRINK ASSOCIATION

Mr. DELAUTER. Thank you, Mr. Chairman.[1]

My name is Bob Delauter, and I am a Coca-Cola bottler from Portland, IN, and a past chairman of the executive board of the National Soft Drink Association.

Thank you for the opportunity to appear before you today to present our views.

The National Soft Drink Association represents the soft drink industry in the United States and consists of about 1,500 soft drink bottlers, about 80 percent of which are members which produce about 90 percent of all soft drinks produced in the United States. They are members of the Sugar Users Group, which is a coalition of trade associations representing industries which use vast amounts of sugar. We would like to say that we endorse their testimony.

I am appearing before this committee today not only to indicate our support for the Sugar Users Group position, but to indicate our concern about the effect of the program and the impact that it has on our industry. The beverage industry has historically been the largest user of sweeteners in the United States and the fastest growing user.

Mr. Chairman, it is no secret that sugar is declining. I will not repeat the figures that you have heard here just now, but the fact is when I started in this business some 30 years ago, sugar represented 100 percent of our sweeteners. In 1963, the amount was about 102 pounds, but by 1983 it was down to 71 pounds.

In the meantime, corn sweeteners which represented nothing in the beginning have grown from 21 pounds in 1973, up to 52 pounds in 1983, which is more than 200-percent increase in 10 years. During this period sugar's share of that sweetener market has declined from about 83 percent to about 53 percent. Corn sweeteners have gone up nearly three times, and dietetics or low calorie sweeteners have increased about 2½ times, from 3 percent to 7 percent.

Most of the increase in corn sweetener consumption in our industry and thus the decline of sugar consumption has been the result of consumer and user reaction to both price and technology. I was interested in what the people before me had to say, and I would like to say it is good news and bad news. The good news is that the system works. It maintained a stable high price of sugar. The bad news is that it has cost the American housewife a tremendous amount of money, probably $300 million for every cent in arbitrary increase in the price of sugar.

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[1] See p. 518 for the prepared statement of Mr. Delauter.

The situation that exists as it is today was designed to help the sugar producers in this country. I did some quick figuring, and I come up with 1,500 sugar producers, that is roughly 2 percent of the farmers in the United States, get 100 percent of the benefit of that subsidy, 98 percent of the farmers who I represent, by the way, in Indiana suffer.

The law that has been designed to protect sugar producers has in fact succeeded in driving the best customers to their strongest competitors.

I do not believe the dramatic growth rate that has taken place over the last few years will continue in 1985. The shift occurred primarily because of the announcement of the Coca-Cola Co. and Pepsi-Cola Co. and others in our industry of their shift to 100 percent fructose in producing their products.

Since 1980, when our industry used more than 2.6 million pounds of sugar, we have come almost a 180-degree turn to where we are now allowed in our industry, my industry, to use 100 percent fructose. Sugar is selling at about 22 cents a pound in this country, nearly 4½ to 5 times the world market price and I am not in favor of low-priced world market sugar, but I think it is rather foolish for us to dump all the money into South America and Central America while at the same time we are working exactly at cross-purposes by denying these people access to a market with the only products they can produce in their countries. Their sugar quotas which have declined in the last several years, have greatly burdened these countries. We will be facing complete chaos, I think, if it continues.

The members of our industry, Mr. Chairman, would like to see a strong sweetener industry. We would like to see a strong sugar industry, we would like to see a strong fructose industry, and, yes, a strong aspartame and artificial sweeteners industry.

We think the competition in the sweetener field would help. We also feel that the consumer is paying an extremely high price for 400,000 corn producers who are under the umbrella that is being held now over the soft drink sweeteners market by high-priced cane sugar. Much has been said about the importance of the milling industry and the fact that HFCS uses about 4 percent of U.S. production. However, this country still exports nearly seven times that much. Our farmers in Indiana cannot ship corn to the South American countries, who are our trading partners unless they ship us sugar. If those countries do not have the money to buy corn, they are in a difficulty, and they are not going to have money to buy corn, unless we buy some of their products, in this case sugar. The cost of producing 55 percent HFCS product, averaged about 16 cents per pound in 1984, a variable cost average of about 11 cents per pound. This means that HFCS 55 pricing would have to be below 10 or 11 cents before corn millers would cease production. Once the investment has been made in the millions, I do not believe they would cease production as long as they could cover their variable cost.

The proposal that the Sugar Users Group has made would not result in sugar prices declining to the above prices.

Mr. Chairman, I find it rather amazing that at a time when the Government is seeking to deregulate the economy and to remove barriers to competition, and to reduce the special privilege to the sugar producers as now exists, the program now proposed accomplishes just the opposite. I think the strength of this country lies in the ability to export our agricultural products. That is a very important consideration.

The quotas in the sugar program are detrimental to achieving these levels of exports. If our trading partners in South America do not have the income, they cannot buy the corn. Their only source of income, in many cases, is sugar.

Senator ANDREWS. Actually, the arithmetic bothers me on this. Do you really think that those countries would do better selling sugar for 4 or 5 cents than by selling some of it at the price that is maintained in this country? When our top economists point out that the dumping practices of the European Economic Community has cost those Caribbean nations $2.5 billion last year, how can you say that letting our interior sugar markets go down can help those people?

Mr. DELAUTER. I am not an economist.

Senator ANDREWS. But a moment ago you said that it is a shame for us not to take advantage of those world prices. The world dumped price right now is 4½ cents. The small amount that the Caribbean countries export to us certainly is an improvement over that. We would have to fund that difference out of foreign aid, or a number of other things. If we can hold the line on a sensible sugar price, the case has been made by some of the key foreign policy experts that this would be beneficial.

Mr. DELAUTER. I agree with you that subsidies in the European Economic Community are too high. But I think the thing that hurts the people in the Caribbean is a low quota. If you have no market to sell to, sugar is only worth what a willing buyer will pay. If they have no quota, they have no price.

Senator ANDREWS. They will have an increase in quota under your program, because they would have no quota at all, and they could sell into the United States additional amounts, because we would then, in your opinion, be producing no sugar?

How are they going to increase the market here, unless we stop producing sugar?

Mr. DELAUTER. I am not an economist, sir. I cannot answer that question.

Senator ANDREWS. But you said it would be in their benefit to have an increased market in this country. The only way that they could have an increased market in this country is if we force American producers totally out of the market. Is that good for the long-range economy of our country, or for the bottling industry?

Mr. DELAUTER. Well, whether we do it by Government policy or actual free market, the fact is that the sugar market is declining now. The switch has occurred under the program that was designed to help them. It has been in existence for 15 years, but the result has been their demise. I do not think that I can answer your question any other way.

Senator ANDREWS. I am sorry for the interruption. But I was intrigued with your statement.

Mr. **Delauter**. NSDA believes that sugar policy should be neutral to all domestic and nondomestic entities with respect to agricultural commodities. We think that it should not overtly create distortions in the allocation of resources among agricultural commodities. We think that the prices of sugar should not be maintained at a level which creates distortions of consumption.

We think that sugar policies should develop in the spectrum of the long-range interests of the country, and the producers, and not a quick fix. We think that in the long run it is in the interest of the U.S. agriculture to expand trade, and it takes two to tango, so to speak. I believe we can improve that situation.

Likewise, we think domestic foreign policy should not interfere with the foreign policy of this Nation.

In conclusion, I would like to say that we are happy to have been given permission to present our case today. We hope that the facts that we have pointed out will make your job easier, and we thank you for the courtesy of letting us give our views.

Senator **Andrews**. Thank you very much.

Our next witness is Nicholas Kominus.

STATEMENT OF NICHOLAS KOMINUS, PRESIDENT, UNITED SUGAR CANE REFINERS' ASSOCIATION

Mr. **Kominus**. Thank you, Mr Chairman, for properly pronouncing my name.[1] It is usually massacred.

Mr. Chairman, I am here today to urge you to reduce sugar price supports. The sugar prices in the 1981 bill were too high. They are killing the cane sugar refining industry.

Five refineries have closed since the supports were adopted in 1981, four within the past year. Operations at one refinery were just suspended last week. Other refineries are operating at reduced capacity. Thousands of people have lost jobs. There are only 11 independent refineries left.

Unless sugar price supports are reduced, more refineries will be closed, and more people will lose jobs. The consumption of sugar is dropping dramatically. The cause of the decline is crystal clear. High sugar prices provide an umbrella under which the corn sweeteners, particularly high fructose corn syrup, are priced.

The differential between the price of sugar and HFCS has encouraged food processors to switch away from sugar. No one switches because they believe HFCS is a better product than sugar. It is not. On the contrary, they all switch reluctantly and strictly for economic reasons.

High sugar price supports are also intensifying the quest for cheaper artificial sweeteners. The cane sugar refining industry has been forced to bear the brunt of the decline in sugar consumption. This is unfair, and this is inequitable. High sugar price supports are encouraging increased domestic sugar production. Were it not for poor weather and contract disputes between sugar beet producers and processors, domestic production would be considerably higher.

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[1] See p. 521 for the prepared statement of Mr. Kominus.

The cane sugar refining industry is efficient, and its labor is productive. We can compete with anyone. We cannot, however, compete with the U.S. Government.

It is insane for our Government to foster a policy that cripples an efficient industry, such as ours, and permits producers who have to depend upon heavy subsidization to expand.

High sugar price supports have drastically reduced the demand for imported sugar, and thereby undermined the economic and political stability of the developing nations, which are so important to the security of the United States.

At this point I would like to say, Senator, that Senator Melcher asked the preceding panel a very important question that I do not think was answered adequately, and that was with regard to what percentage of our consumption is produced here at home, and what percent of our consumption is imported.

Senator Melcher, you remember in the old days, when you served in the House, that we had a Sugar Act, and one of the goals of that act was to maintain roughly a 50-50 balance of domestic and imported sugar.

In 1974, the last year of the act, imported sugar accounted for 51 percent of our needs. In 1984, imported sugar accounted for less than 36 percent of our needs. If you compare it to total sweeteners, including corn sweeteners, you will find that imports today account for less than 20 percent of our sweetener needs.

This drop in imports is catastrophic to our foreign friends, and also detrimental to American farmers. It is generally agreed that if American agriculture is to prosper, it has to export. It is also agreed that the only place that we can really increase exports is in the developing world. Markets in the developed nations are saturated.

The sugar exporting nations represent an important market for American agriculture, and more importantly, prospects for increasing exports to these nations are most favorable. These nations cannot, however, buy from us if they cannot sell to us. Trade is a two-way street. Sugar is among the handful of products they can produce efficiently for export.

High sugar price supports are also placing an unnecessary burden upon sugar consumers and users. Today American consumers are paying more for sugar than consumers in most, if not all, of the other nations of the world, and that is the bottom line.

We can argue this side or that side of the world price, whether it is a dumping ground, or what have you, but our consumers are paying more than consumers in these other nations.

Senator **Andrews**. Mr. Kominus, that is interesting, because that varies 180 degrees from the facts that have been given to the committee. It would be very helpful to us if you would cite to us what price the consumer pays for sugar in Germany, France, Belgium, and England.

Mr. **Kominus**. Yes, sir, I would be very happy to do so. I have attached to my statement, which you have, figures from the U.S. Department of Agriculture, which are published periodically, which are the actual retail prices for sugar, it is table VI. This is expressed in cents per kilogram. I have converted these to cents per pound.

In Bonn, it is 29 cents per pound. In London, 17; in Paris it is 28; Rome, 32.

The figure given for Washington, DC, is 64 cents. Now, I checked yesterday, in downtown Washington, a 2-pound box of sugar costs $1.39. That is 69 cents a pound. If you want to go out in the suburbs, a 2-pound box of sugar in suburban Maryland last night was selling for $1.35, or 66 cents a pound. I would like to say that the 2-pound package is becoming the predominant size package in the United States, in the cities. At one time it was a 5-pound bag.

Obviously, if you buy 5 pounds, you pay less, or 10 pounds, you pay less, or 100 pounds you pay less.

Senator **Andrews**. The question still remains—and I am asking to try to get this information. We had testimony earlier today, and we have heard, on a number of occasions from the Department of Agriculture, that the European Economic Community, those nations that you have just cited, support the price of sugar to their producers at a price of 27 to 37 cents per pound, is that not correct?

Mr. **Kominus**. I suspect it is.

Senator **Andrews**. We are supporting the 18 cents per pound in this country, essentially, is that not also correct?

Mr. **Kominus**. Twenty-one, twenty-two.

Senator **Andrews**. But 18 plus 4 which gives us 22 cents. They are actually at 27, 28, plus their costs.

If you say they are USDA statistics, they have to be accurate, because all things are good and proper down at the Department of Agriculture. Do they have a subsidy between the producer and the retail marketing of sugar, where they lower the price to the consumer in Europe. Do you know of that kind of a program.

Mr. **Kominus**. I am not that familiar with the program.

Senator **Andrews**. How then do they get prices to the consumers at a price which is half as much as our consumers are paying, when they are paying their producers a third more. Are the processors in this country ripping off our consumers.

It certainly is not the producers. I mean, how do we get that?

Mr. **Kominus**. They have a complicated system. I would be happy to provide you with further information.

Senator **Andrews**. But you can see why these figures are cause for concern?

Mr. **Kominus**. I can see where it would appear to be of concern. But these are the Department's figures, sir, and that is what they show. They publish these figures periodically.

Senator **Andrews**. I know. What I intend to do, is to direct the staff of our committee to inquire into the USDA, how they came up with this kind of figure. The USDA has not told us of any kind of consumer subsidy there, when they are supports, according to the producer, 30 percent higher that we are supporting the producer at home.

Where we get this strange result of consumer prices is something new and intriguing. So perhaps we will be able shed some light on that.

Senator **Melcher**. What is the home sale price of sugar?

Mr. **Delauter**. We are not using cane sugar right now. We are paying around 17, 18.

Senator **Melcher**. You are not in the market. Does anybody know? I have a figure of 32 cents.

Dr. **Knutson**. That is right, wholesale cents.

Senator **Andrews**. But you have got a price of 70 cents a pound.

Senator **Melcher**. I would dare say there is something wrong here. Between wholesale and retail, ordinarily, there is not a 100-percent markup such as you are quoting now. There is something missing.

Mr. **Kominus**. Well, I am just quoting the Department's figures, and I think it would be very helpful if we all looked into that.

Senator **Melcher**. Most Senators do not accept tables from the Department of Agriculture unless the Department can explain on what rationale they developed the table, and what it means. This is a very good example.

What does it mean if you take these figures in good faith, and then testify to a price that doubles the price of wholesale? The difference between wholesale for joint and the retail price is generally a very narrow margin. I do not know what this table means.

Mr. **Kominus**. Well, as I say, I shall try to provide you, Mr. Chairman, with some additional information.[1]

Senator **Andrews**. I do not blame you for using it. If I found a table like that, I would use it. Our hat is off to you for picking this up. Because when you say there is something that smacks of smoke and mirrors, we have to do a job on the Department. They are great statisticians.

Mr. **Kominus**. If I may continue, I have a few more points to make.

Senator **Andrews**. Sure.

Mr. **Kominus**. Sugar price supports that were included in the 1981 farm bill were, in large part, based on preliminary USDA cost of production estimates that subsequently proved to be too high.

In addition, high supports were based on anticipated increases in production costs that never materialized, and the costs have not increased as much as anticipated in that inflationary period. Some producers have experienced reduced costs.

I think it is interesting to note that Hawaii's largest producer just reported that it reduced production costs by nearly 2 cents a pound, from 1983 to 1984. It attributed its reduction to, and I quote, "strong thoughtful management."

USDA has also administered the program in an overly protective manner. As a result, sugar price supports are too high. They are not merely providing a safety net to protect producers from disaster, they are guaranteeing a profit. The failure of any producer to profit under the program can only be attributed to one of the following four factors, or any combination thereof.

No. 1, poor weather. The entire domestic industry has been subjected to poor weather in the last few years.

No. 2, losses from other operations.

No. 3, regional overproduction, which is the result of high supports, and forces processors to market far from home, and thereby incur high marketing costs.

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[1] See p. 529 for the additional material supplied by Mr. Kominus.

No. 4, plain old mismanagement. Producer financial statements that are made public substantiate these conclusions. Sugar price supports should be reduced. There is no justification for maintaining them so high.

I respectully urge the committee to reduce sugar prices.

Thank you very much.

Senator ANDREWS. Thank you.

Our next witness on the panel is Ellen Haas.

Welcome back. Good to have you here.

Let me assure you that your testimony will appear in its entirety, as if you read every word.

Ms. HAAS. And I would be delighted to summarize it.

However, due to a technical problem, I would like to ask that the last page be replaced with this last page.

Senator ANDREWS. We will see that we will get a correct copy to the record.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE

Ms. HAAS. I will submit this afternoon the current one, and I will summarize the correct one, as well.[1]

Let me also say that I am pleased to be here again, and to represent a constituency that has long been underrepresented in farm issues, and that is the consumer.

Yes, I heard the producers talk about the consumers, and I hear the processors talking about the consumer interests. It seems everyone does. But we do not hear enough about the consumer interest speaking for itself.

I would like to say, too, I am here, having served five terms on the Consumer Federation of America, and that joins us in our petition today.

During this past several months, there has been a great deal of legitimate congressional concern and public discussion about the troubled farmer. But the person that we have not heard about or from is the American consumer, the person who these guys farm for. We heard practically nothing about how food and agricultural policy affects this ultimate user. The consumer has been left out of the picture almost entirely, as if she or he has no stake at all in decisions about food and farm policy.

Clearly, this is not, and cannot be the case. The American consumer has a critical stake in food and agricultural policies, from the way our food is grown, to the price we pay for it.

Let me say, we are concerned about that whole farm to retail spread, we are not just concerned about the producer prices. We are concerned about that gap you detected, Senator Melcher.

Today we are facing a farm bill, and that is where it all begins. This is the beginning of the floor of our food and agricultural policy. Our basic concern goes to the heart of what is wrong with the current farm programs, they are too costly for the consumer, and they are often unfair.

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[1] See p. 531 for the prepared statement of Ms. Haas.

The sugar program is a prime example of an agricultural policy gone wrong in this way. Consumers annually consume about 120 pounds of sweeteners, about 5 ounces a day. It is in everything, from peanut butter and catsup, salad dressing, cookies, cakes, and Cokes, that my kids drink too much of, in my opinion.

To the extent the Government raises the price, it directly raises food prices for consumers. When food manufacturers pay more for their ingredients, consumers ultimately pay more.

In the United States we pay, whatever you want to call that price, four times the world price for our sweeteners. We have to still face that fact, whether it is a dumped price or not, we are still paying more than our brethren over the ocean.

Worse, most of us do not even see the cost. It is hidden in the marketplace price of the sugar food product, placing this proportionate burden on the buyer. When it goes to the marketplace, it means that the poor suffer more. When low income consumers spend more than 40 percent of their income on food, and this kind of subsidy works through the marketplace, it just makes sense that those low income consumers pay more in food prices. No other subsidy programs operates in this way, guaranteeing producer profits for commodities sold on the market by inflating domestic food prices.

In 1982, the sugar program added 10 cents per pound to raw sugar prices according to many economic studies, yielding a total annual consumer price of $3 million. In 1983, the program added 12 cents, $3.6 million. Thus, over the 4-year span of our current legislation, you can estimate that consumers will pay more than $12 billion increased expenditures for food products containing sugar just because of the kind of sugar program that we have.

If you want to add on to what Coke does to us, and what the other processes do, it increases it more. Since this angle of subsidies composes at least 1 percent of the food bill for the public, it is more inflationary and affects food consumer costs than any other single commodity subsidy program operated by the Federal Government and before this committee.

Then there is the question if we are going to have a program like this, what is the benefit distribution? Sugar is producing according to the USDA figures that I have seen, that I am beginning to question as much as everybody in this room, on less than 1 percent of farms in America and fewer than 12,000 producers are involved. But we look at the average substitute for producer by dividing the program's direct costs among them, we come up with a figure that is quite startling of $250,000 per year. In comparison, there are many more wheat farmers, there are 900,000 wheat farmers, and their subsidy program comes down to, if you divide it that same way, $15,000 per year. And if you look at the Federal School Lunch Program and the number of children involved in the School Lunch Program, that program, if you want to call it a subsidy, costs about $100 for a child to enroll. That to me is an inequitable situation.

Finally, this question about balance and equity goes to the heart of our current export problem. We just cannot export enough corn and soybeans and other staple products to Latin American countries that do not have the money to buy them because we import enough sugar. It is time to bring sugar out of the closet. We should expose its hidden features, its hidden ingredients. Many, many foods extract agricultural hidden costs and not to the consumer's benefit. Clearly it is not balanced agricultural policy. It is time in 1985, as we work on the 1985 farm bill, to adopt a program of reform.

There are really three basic ways that we could go. We could continue present policy which keeps the prices high and makes consumers pay for the program in many ways. We could end the program altogether, pressing for international ingredients between importing and exporting nations. Or we could change the current program to bring it into better balance with other commodity price support programs. This is the option "Public Voice" supports. This is the way other consumer organizations, like consumer federations, support. But we must face the issues squarely.

The loan rate and the market price must come down. The administration's plan, while addressing these problems, does not deal with them adequately. We would lower the loan rate incrementally but persistently. This would put the sugar support price program on a road that can lessen the burdens for the consumers and provide more balance for agricultural policies as a whole.

We look forward to working with you in the coming months and hope that we can both together find a more equitable way of solving our problems.

Senator ANDREWS. Thank you very much.

Ms. Haas, what has happened to the price of sugar in the United States at the wholesale and retail levels since the 1981 act?

Ms. HAAS. Well, basically what we have seen is an increase. I think that the consumer is the one who is hurting by that. I do have USDA's position, but I am sure you have seen that as well, which does track the wholesale and retail prices.

There has been certainly an increase. So if you take a look at 1982, it was 34.3 cents, and today it is 35.6.

Senator ANDREWS. What has happened since 1980 before the act? What was the average price of sugar at the wholesale level in 1978, 1980, and 1981?

Ms. HAAS. I do not have the statistics with me today.

Senator ANDREWS. Mr. Kominus.

Ms. HAAS. I do not have them with me today.

Senator ANDREWS. Let me ask it of the other panel members.

Mr. KOMINUS. I do not have the wholesale prices, but here are the retail prices. In 1974, which was the last——

Senator ANDREWS. No; the years before. We had a hiatus a couple of years ago, 1980 and 1981. What was the rise?

Mr. KOMINUS. The 1980 price was 32.7 cents. In 1981, it was 40 cents. In 1982, it was 34.3. In 1983, it was 36.2, and in 1984, it was 26.3.

Senator ANDREWS. In other words, it went down?

Ms. HAAS. For other reasons.

Senator ANDREWS. The point is that you must go to the time period most approximate. We were without a sugar act for the 2 years we cited. We then enacted the present legislation and you say the prices for the 3 years under the act, were significantly lower. That is, of course, one of the things that we want to look at.

The other item that I would like to ask Mr. Delauter, corn sweetener sells at a lower price than sugar, and you pointed that out. It is usually a few cents a pound less, somewhere in that neighborhood.

Mr. **Delauter**. Twenty-five percent.

Senator **Andrews**. How much has the price of soft drinks been reduced as a result of going to 100 percent high fructose corn sweetener?

Mr. **Delauter**. First of all, you have to look at the whole picture when you are shifting from sugar to corn sweetners to dietetics. Although sugar use has been decreased, the percentage of share of total sales is also less. Dietetics sales have gone up, in fact about the only group last year to do so was dietetics.

Senator **Andrews**. A normal can of Coke, you are a Coke bottler. Coke changed from using sugar syrup, as I understand, to using high fructose which is 25 percent cheaper sweetener. This is for the sweetened total product.

How much, when you have that savings of 25 percent by shifting to the corn syrup, did you lower the price for a can of Coke?

Mr. **Delauter**. We are not without inflation in the other costs. We have not raised our price in 3 years, nor have we lowered it.

Mr. **Bayh**. May I just ask if Mr. Delauter's 25-percent figure takes into consideration the rather dramatic higher cost of aspartame compared to saccharin? The same question can be asked has the cost gone up significantly since the use of that particular sweetener is concerned? I think everything sort of levels out.

Mr. **Delauter**. As a matter of fact, Diet Coke, the No. 3 selling soft drink, 16-ounce case costs about 20 more cents per case when we included the increased cost with regard to aspartame. We have a tendency to try to have prices more stable.

Senator **Andrews**. Now, I am getting into dangerous ground because the statistics I have been shown indicate that the Canadian price of sugar is about 3 cents a kilogram less than the price in the United States. That does not agree with the figures that were just given. We are going to try to find out why those figures are strange. But it is my understanding that Canada is also one of the few countries permitting its refiners free access to raw price sugar. Yet, the retail price of sugar in Canada is only 3 cents a kilogram less.

How then can we assume a big drop in U.S. retail prices as a reaction to world sugar usage?

Mr. **Kominus**. There may be some questions as to how cost increases affect the cost of the sugar contained product. It is quite clear, as we look at the record, that any increase or decrease in the price of raw sugar is almost immediately reflected in the cost of refined cane sugar.

Mr. **Bayh**. If you will excuse me, Nick, I hate to use this as a source, the U.S. Department of Agriculture, but one of the concerns that I have had since I have been representing the sugar group is what the impact of the price of sugar on commodities as a whole is. We all know that sugar is only one of many ingredients if you look at what has happened to the price of that 2-pound bag and 5-pound bag, there is almost a direct tracking between the cost of raw sugar, wholesale sugar, and retail price. So I do not want to commend Mr. Delauter because he runs the plant, but in talking to a lot of soft drink industry people, if they were to price each can depending upon the price of the sweetener product in it, he would have a dramatic fluctuation, particularly with aspartame. What they try to do, not only the soft drinks, but in other products such as ice cream, to have a consistent price across the line for each product, whether it is half pint, pint, half gallon. It obviously costs more to make butter pecan than vanilla ice cream. If you pick up a quart of it in High's, it is the same price. So what the manufacturer tries to do is average out this price so they can make a reasonable profit. Perhaps that is not helpful.

Senator ANDREWS. Let me again go back to another point, Senator.

Back in 1978, when you were a Member of this body, we voted 50 to 22 to approve a measure to pass the Sugar Stabilization Act, which is about the same thing adjusted to inflation as the price we are looking at now. You voted with the majority to approve that bill.

What has changed since that point in time?

Mr. BAYH. I have learned a lot more about what happens to the cost of sugar, for one thing, and how other farmers are being treated.

Senator ANDREWS. You feel that it is important to crunch back on sugar price support because other farmers are being treated less well?

Mr. BAYH. I feel a little bit envious of sugar farmers making three times as much as a corn farmer, and I am concerned about what this is doing to our foreign markets.

I know you represent that concern. You represent a constituency that not only has sugar, but these other crops.

Senator ANDREWS. The reason I got into that is precisely because you mentioned the equity between the crops.

Now, as I recall, the price support for sugar is in the neighborhood of 45 percent of parity. The price of corn today is supported at, I think, in the neighborhood of 48 percent of parity. Actually the price of corn and feed grain is supported at a higher level of a percent of parity than the price of sugar supported at this level. That is why they think our level is too low. So our European friends and allies support sugar in their area in the neighborhood of 27 to 29 cents.

Given that disparity, I wonder how much lower as a relative percent of the parity you think sugar prices ought to be supported at than feed grain?

Mr. KOMINUS. Can I answer that, Mr. Chairman?

Mr. BAYH. Before you do, let me suggest that I am sure when we are referring to parity today in trying to assess what is a good bargain, it is a little like suggesting that we all want to drive a Model T Ford again because I think parity is a term that has a lot of ingredients in it that go back to before any of us were in Congress.

Senator ANDREWS. We are not totally unaware of that. The only problem is our great and good friends down at the Department of Agriculture have not yet given us a better yardstick for comparability between crops. You know, sometimes it amazes us that we are supporting the price of tobacco at 80 percent parity.

But these are some of the yardsticks that we look at. Comparative pricing, when you see a support program that has been in existence now for 3 years, and have seen a cutting back of production, the comparison of other crops is not as equal as might have been expected. That is why I point it out.

Mr. **Bayh**. I appreciate that. As I say, a representative of constituencies has to look at this in a certain fashion. If you see what has happened during the existence of the act, as we reflect in the tables there, since the act there has been a decrease in the first couple of years and a leveling off basically because the fact has to do with the kind of facts we are looking at today.

But during that same period the way we have priced pretty well prices itself out of the market. So, the amount of sugar that is being used has gone down appreciably because the interest in the market issues abroad. I do not think we are going to turn that down. But you can arrest it, perhaps you can back off some of the high fructose and let sugar back into it.

I think we have already seen that kind of damage. I think we need to stop it and keep it from going further.

Senator **Andrews**. Go ahead.

Mr. **Kominus**. Parity is, of course, a measure. I think it is universally recognized as antiquated.

I would suggest that you might want to look at the last table in my testimony which compares cost of production in terms of variable expenses. There you will see returns per planted acre for sugar beets at $409, sugarcane at $365, corn at $133, wheat at $82, soybeans at $144, oats at $58, rice at $163, and cotton at $175.

Senator **Andrews**. If you took all expenses into consideration rather than just variable costs, what would that be?

Mr. **Kominus**. Well, in some cases, I would assume it might be reduced. But I think when you are talking about the program, this is a very significant standard to use.

Senator **Andrews**. The only trouble is the farmer has to carry all of the expenses, not just variable expenses.

Mr. **Kominus**. I think if you look at all expenses, you will see some reduction here. But the same relationship will exist.

I will be very happy to provide a table that covers all expenses.

Senator **Andrews**. Incidently, I might mention that we have contacted USDA for an average retail price of sugar in Northeast United States, and have been told that the figure is 84 cents a kilogram. That is considerably down from $142, but we will let USDA fight with with USDA. I do not think we have to get much more into that question.

Mr. **Kominus**. But, Mr. Chairman, I quoted the prices at the store yesterday, and they were comparable, prices were comparable with the figures that are in this other USDA table.

Senator **Andrews**. You have been to the store. All I have is USDA in the last 20 minutes. So I have to go on that basis, I am afraid.

Dr. Knutson, you are chairman of of the sugar policy research task force. You prepared a paper entitled "Sugar Policy Alternatives and Impacts, 1985 and Beyond." A member of my staff read a draft copy of that paper and says that you wrote: "Current sugar policies are gradually but persistently destroying the sugar industry. The sugar programs created the economic incentives that fostered the economic progress."

Going to back to 1970, according to USDA—I hesitate to say that—total caloric sweetener consumption in this country has remained just about the same. Sugar consumption has dropped from 101 pounds per year to 67.5. That has more than been offset by increase in consumption of fructose from almost nothing. There has been some reduction in U.S. sugar production over this period, but the percentage of the increase in high fructose corn consumption has come at the expense of foreign sugar exporters.

Are you prepared to say that high fructose production and consumption would not have expanded if there was no sugar program?

Dr. KNUTSON. HFCS certainly would not have expanded nearly as much as it did. Because the sugar program provided an umbrella protection of approximately double the cost of HFCS production. Certainly the umbrella of price protection encouraged the expansion of HFCS plant capacity and encouraged expansion in use by the users. So, there may have been an HFCS industry without the program. But it would have been not nearly as large as it is today.

Senator ANDREWS. What is the average cost of production in the United States as you determined in your study?

Dr. KNUTSON. You have to distinguish between variable versus fixed costs. The average variable cost of production runs somewhere in the range of 12 to 15 cents.

Senator ANDREWS. I understand that USDA's economists, again we are getting into that, have done a study that has not been made public. It suggests that under the administration's sugar program, at the figure that you just cited, would result in a situation where in 5 years the only sugar production levels would be in the small part of Florida and part of the Red River Valley.

Do you see that as accurate?

Dr. KNUTSON. Under the administration's proposal?

Senator ANDREWS. Which essentially is the price you have just said, average cost of production.

Dr. KNUTSON. Yes. I would say production would drastically decline except in those two regions, yes.

Senator ANDREWS. So the effect of your proposal would be a drastic cutback in domestic production?

Dr. KNUTSON. My proposals, how did——

Senator ANDREWS. No. Your proposal, which is support essentially for the administration's proposal.

Dr. KNUTSON. I did not come in here to support the administration's proposal. All I am saying is that unless sugar becomes competitively priced with corn sweeteners, the market is going to vanish for sugar.

Now, if you want to support returns for sugar producers, you ought to do it through a deficiency payment program that will allow a direct income support.

Senator ANDREWS. Let me back up a little, to make then, sugar competitive with corn sweeteners essentially, you must reduce the price to 10 or 12 cents.

Dr. KNUTSON. Fifteen cents.

Senator ANDREWS. So you are supporting today a 15-cent support price?

Dr. KNUTSON. I would suggest that a 15-cent support price for sugar and then going in and supporting income besides that at whatever level the Congress sees appropriate as a social program would be the way to go, yes.

Senator ANDREWS. Ellen Haas, you write the Public Voice pamphlet, and you propose that Congress eliminate the domestic sugar plan and implement an international sugar agreement between both exporting and importing nations, which would eliminate trade barriers.

Ms. HAAS. Well, what we said is there is one option. As I stated in my testimony, that is certainly an option that has been advocated by a wide range of groups and economists. That is not our position. But certainly there are consumers who believe it is in their interest not to have a sugar program.

Senator ANDREWS. But do you think one option would be to develop an effective international sugar agreement?

Ms. HAAS. Well, I mention that in my testimony, too.

Senator ANDREWS. That is why I went back to that. But are you also familiar also with the provision of the most recent international export agreement. It expired at the end of last year, and as I recall, it stabilized prices at a certain price.

Do you recall that price range that was negotiated several years ago, what it was?

Ms. HAAS. I do not remember exactly, though it was around 13 cents. However, I realize that our history in the international agreements has not been optimal. But yes, that is a goal objective that we thought was appropriate.

Senator ANDREWS. Well, that agreement was to maintain, as I understand it, world prices, at 13 to 23 cents a pound. Isn't it true that the current loan rate for sugar, as low as the market stabilization price, 21½ cents, is well within the nonintervention range of the agreement.

Ms. HAAS. But you also have a lower range.

Senator ANDREWS. But it is still within the range of the agreement, and it has not gotten above that agreement was negotiated sometime ago. Would you not say then that the price determination that we are looking at, and that we have had, is relatively within the range of that agreement?

Ms. HAAS. It certainly is on the high side. In any kind of negotiation, you can always do better, and if you give some, and take some, and the 22 side is really just too high for consumers, particularly those low-income consumers. That is why we feel there is a need to reduce that level.

Senator ANDREWS. You published a pamphlet entitled "Consumers' Guide for Prices," and it was publicized in the food section of the Washington Post.

Ms. HAAS. Right.

Senator ANDREWS. I can get a copy of your 12-page pamphlet for $1. In this pamphlet, it says that in 1964, the Federal Government provided $200,000 for sugar subsidies to each of 12,000 sugar producers. That sounded pretty spectacular, so I dug back and found each producer has about 100 acres, with an average yield of 20 tons each. That figures out to be around 5,000 pounds of sugar an acre, or 500,000 pounds for the entire 100 acres. Your assertion of

$250,000 subsidy for each producer turns out to work out to be a subsidy of 50 cents a pound.

Have I missed something in this arithmetic?

Ms. **Haas**. Again, as we explain in the testimony, the way that was calculated, is that we took the $3 billion subsidy, or you might say direct cost to the consumer, and divided that by the 12,000 producers. This kind of figure, which is an average, is an indication of the level of support, and how those benefits are distributed by a small number of farmers, compared to wheat farmers, which number around 900,000, and who get much more proportionate kinds of benefits.

Senator **Andrews**. I know that.

Ms. **Haas**. It is the same kind of reason as comparing how many hours you have to work in order to pay for a bag of sugar. What that does not consider is the wages that are being paid. It is an indication of the kind of benefit distribution we have in sugar, compared to others. It also includes the directions and the costs.

Senator **Andrews**. But what was the $3.6 billion based on?

Ms. **Haas**. Again, those figures that the difference between the world price and the price that the consumer is paying for the market price today, and that difference has been calculated by Sniker & Associates. It has also been calculated by other economic consulting firms in the country, on wage and price stability several years ago, who calculated those costs, and how the consumer is paying additional cost in their food production because of this.

We use those figures from other economic consulting firms and other governmental agencies.

Senator **Andrews**. But, some of these numbers are very confusing, 50 cents per pound when the price to the producer is only around 21 cents per pound.

But you could come out with a subsidy of 50 cents. Could you provide a little extra ammunition, or extra figures for us. I would like a little more information where you are on that.

Ms. **Haas**. I would be delighted to.

This brochure, because we work with a wide range of economists, a group of economists, bipartisan, you might say, really reviewed it. I would be happy to have them take a look at it.

Senator **Andrews**. As long as they did not come from the Department of Agriculture.

Ms. **Haas**. At one time or another, they probably walked through it. But that is it.

Senator **Andrews**. One final question.

You have a series of pamphlets representing the impact of Federal farm subsidy programs on U.S. consumer prices. What other pamphlets have you printed?

Ms. **Haas**. I announced at the dairy hearing the other day we are releasing a major study on dairy policy alternatives sometime in mid-April. After that economic study we will be releasing a consumer guide to dairy prices. We hope to have other booklets, including one that we are looking at right now, peanut price program.

Senator **Andrews**. Is the membership of your organization, Public Voice, made up entirely of individuals, or corporate members?

Ms. Haas. We have no corporate members, whatsoever. We work with a network of 200 or more consumer groups around the country. There is no corporate director on our board of directors, or board of advisors.

Senator Andrews. Thank you.

Senator Melcher.

Senator Melcher. Thank you.

Dr. Knutson, the administration's bill recommends deficiency payment. Do you have a cost estimate of that?

Dr. Knutson. I believe the cost estimate on that bill runs something around $400 million, $400 to $450 million.

Senator Melcher. That would come out of the Treasury, rather than from the consumers?

Dr. Knutson. Yes.

Senator Melcher. That is why they are not market oriented.

Dr. Knutson. In that sense, it is not market oriented.

Senator Melcher. Coca-Cola supported the Sugar Act to stabilize the price of sugar. When Coca-Cola ceased supporting the Sugar Act, there ceased to be a Sugar Act. Perhaps they anticipated switching to to fructose. There is no true world market price for sugar.

Mr. Kominus. There is a world market price for sugar just as for wheat and soybeans.

Senator Melcher. What is that?

Mr. Kominus. Whatever it is, comparable production percentages are traded under it.

Dr. Knutson. The world price for sugar is probably around 5 cents, 6 cents a pound currently.

Senator Melcher. Can we agree that that is a dumped price?

Dr. Knutson. It is a result of a combination of——

Senator Melcher. It is the end gain price, after everybody has taken what sugar they had under agreement.

Mr. Kominus. Well, there are many countries that produce more for that market, and that is the only market they have.

Senator Melcher. Which ones? What countries?

Mr. Kominus. Nicaragua.

Senator Melcher. The only answer is a tiny country, with 3 million people.

Mr. Kominus. All these other countries have to ship a great percentage of sugar to that market.

Senator Melcher. I cannot understand why you produce at say 25 cents a market, or less until there is an excess. Then we get into 5 cents. But none of us advocate, in this country, absolute poverty so we can have something cheap. Or do we?

Dr. Knutson. I do not think that any of us have suggested that.

Senator Melcher. None of us in this country advocate producing something for us that means absolute poverty, and then framing it in a law

Ten cents a pound, I daresay, represents absolute poverty. I read in the Post that some countries now produce marijuana as a substitute. It is becoming a problem for them.

The 5 cents a pound dumped price is truly a desperation dumped price. I do not see where this gets to be a big consumer issue, Ellen.

I recall that in the early seventies, when we still had the Sugar Act, the Consumer Federation was not necessarily for it. It might have been silent or even opposed it.

Ms. **HAAS**. There has been a long history, of a decade of consumer involvement in agriculture policy issues, and in fact, CSA did take a position at that time for lower levels, and it did say, on the side, at that time, ending the sugar program.

Senator **MELCHER**. You mentioned a decade.

Ms. **HAAS**. Well, a decade.

Senator **MELCHER**. We ended the sugar program more than a decade ago.

Ms. **HAAS**. In 1973, if I remember correctly—in fact, I know for a fact, I remember, the then executive director testified about the high level of prices, and was on the side of ending it.

Senator **MELCHER**. When the bigger consumer groups such as the Coca-Cola people got their way the Sugar Act ended. I think that it is very fair to say that efficiency has improved. If we use 1974 dollars, I think there would be a great improvement in efficiency.

What we are talking about is how much sugar is in a can of Coke, or 7-Up, or Pepsi. We are not talking about a big amount. We are probably not going to change the price. I do not know. The difference between 10 cents a pound, or 18 cents a pound, or 21 cents a pound measured in terms of the producer and what they get, are all prices that are not very likely to ever be reflected in a lower price for consumers of prepared products. A half an ounce of sugar in a 1-pound loaf of white bread is 1 cent.

I do not think the bakers are going to tell us that if sugar goes down from 18 cents to 10 cents, or 12 cents, or whatever, that they are going to lower the price of bread. That is not the way it works. We know that.

Mr. **BAYH**. If I might just interject, the only tables we had to rely upon are those that have been published. If one takes into consideration the decreased price of various contents, sugar is one of the ones you point out of the small part. The lagtime before a purchaser can reach the market tomorrow, whether it is 3 or 6 months, there is a correlation between the price of the raw product, and the price of the retail product. That is the only true relationship there where you see the price of retail sugar directly tracking the price of raw sugar.

Senator **MELCHER**. I want to point out on this chart that the peak on retail prices was in 1980. It was about 57 cents a pound retail then. These are exactly the kind of charts that Coca-Cola used when they argued for the Sugar Act, because they pointed out that without the Sugar Act we had these wild fluctuations.

Fluctuations may have occurred every 4, or 5, or 6 years, but whatever the consumers saved over here in the downside, they seemed to be paying it on the upside.

So we had the Sugar Act for reasons of stability and an assured supply at stable prices that Coca-Cola then opted for. It is a question of whether you want to have high swings or not. You cannot have them every 4 or 5 years, if you do not have some stability.

Mr. **KOMINUS**. Mr. Chairman, if I can interrupt you on that.

Senator **MELCHER**. I want to make one other point, and then I would like your comment.

What Congress wanted a few years ago was an assured supply, and to keep some of those people in business. And by the way, also to keep some of the exporting countries which we import from in business as well.

Mr. KOMINUS. The program that we have is not going to prevent price fluctuations. All it is going to do is make sure that the price never drops below a floor. The Sugar Act that you referred to did not protect consumers in 1963 from high sugar prices. It did not help them in 1974

We have operated under a program from 1977, which had provisions that were designed to stabilize the domestic sugar industry, and help consumers pay fair prices. That did not help us when prices went up in 1980.

All the domestic program can do is guarantee the domestic producers a floor. It cannot prevent high sugar prices.

Senator MELCHER. It does not have a cap, and you are not applying for one either?

Mr. KOMINUS. No, I am not.

Senator MELCHER. What we have attempted to do is keep some of the domestic producers in business, and also keep some of those that traditionally sell us sugar in business, so we can buy from them.

I mentioned the Philippines. They tell me that in the late 1600's they started exporting sugar to the United States. That is the late 1600's.

Senator ANDREWS. I do not want to interrupt you, but let me announce now that when Senator Melcher finishes his questions, the subcommittee will stand in recess until 1 o'clock, to give the court reporter some rest.

Senator MELCHER. I am going to finish in a minute.

Senator ANDREWS. That is fine, you take all the time you want.

Senator MELCHER. I will finish in about 2 minutes.

We would like to keep them in business. As a constant supplier, we have had all sorts of agreements with the Philippines since 1900, and they have been given a break. They have always been a reliable supplier. There are only two ways we can have that reliable supply. It is either domestic, or from countries we can depend upon living up to whatever agreement we have for a quota basis, year by year, for a multiple of years.

I have not heard anyone advocate that yet. I think the proof of the pudding is that the efficiency has increased. Nobody could contest that, since whatever year we want to use, whether 1975 or 1979, efficiency is a little bit better.

We are really at a point where we have got to have some readjustment of our thinking on this again. I am open for more direct reciprocal agreements on the foreign suppliers. I do not know whether that is the wisest, but I offer it as one method to use. I am not saying that I want to forego the opportunity for the sugar beet growers of this country to continue in operation.

What we have now is a rather minimal floor price. Perhaps it needs a little cap on it. You do not want a cap on it. But that might say to these sugar beet growers that they can afford to sign contracts to stay in business.

Ellen, I do not know how this loan proposal would work. In terms of sugar beets, they have to get those beets into processing, and then as refined sugar. I do not know how that works with the loan rates, as you described it.

Ms. **Haas**. Our most important concern, Senator Melcher, is to reduce the level. I think that we must recognize the fact that the price support program is presently constructed on the food prices of low-income consumers, because it only works with the marketplace. If we are going to maintain that kind of program, the only way, in fairness and equity, to serve all of our Nation, is to reduce the level so that that regressive task that is hidden in all these foods, is not as onerous as it is today.

Mr. **Delauter**. Senator, I guess you can say you cannot fool Mother Nature. I think one of the things we have to be concerned about is, what happens when the refiners figure out how to make crystaline fructose. When they get to the point that they can make the improvement in crystaline as rapidly as they have with liquid the cane refiners will have no customers.

I am saying that when all points are considered, people will buy the fructose.

Senator **Melcher**. I do not dispute that at all, just as I do not dispute Coke using fructose. I am not going to direct anyone of them. I am going to be like Ellen wishes her kids, I drink the diet.

Mr. **Delauter**. We use both, and we would like to have both. I do not think the members of NSDA would accept as fact that Coca-Cola said "there would be no sugar program, and the next day there was not one."

Senator **Melcher**. Well, the happiest news we have is that the committee is now in recess until 1 o'clock.

[Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 1 p.m.]

AFTERNOON SESSION

Senator **Andrews**. The committee will resume its session.

We have a new panel made up of Richard O'Connell, who will introduce Kenneth Manning and Tad Van Leer, and as I understand it, Robert Hiller is here as well.

Gentlemen, let me say that we are going to get an awful lot of wool growers ticked off if we do not summarize our remarks better than some of these other panelists. All of the prepared statements will be printed in the record.

Mr. O'Connell, do you want to introduce your colleagues?

Mr. **O'Connell**. Thank you, Mr. Chairman.

I want to identify myself for the record as the president of the Chocolate Manufacturers Association. After Mr. Manning and Mr. Van Leer testify I will give testimony as president of the National Confectioners Association. But I want to thank you for the opportunity to introduce two good members of the Chocolate Manufacturers' Association: Kenneth Manning, president of the Ambrosia Chocolate Co., and Tad Van Leer, vice president of the Van Leer Chocolate Co.

Senator **Andrews**. Van Leer is giving us gold chocolate dollars. You may proceed.

STATEMENT OF KENNETH MANNING, PRESIDENT, AMBROSIA CHOCOLATE CO., MILWAUKEE, WI, REPRESENTING THE CHOCOLATE MANUFACTURERS' ASSOCIATION

Mr. MANNING. We appreciate the opportunity today to explain what effect the current sugar price situation has on the chocolate manufacturing industry.

The company I represent, Ambrosia Chocolate Co., is a company which this year celebrated its 90th birthday. Its primary plants are located in Milwaukee, WI, and Newark, NJ, and it employs a total of 500 people.

With our headquarters in Milwaukee, we have seen the industrial Midwest continue to face hard economic times, even as other sectors of the economy experience dramatic recovery. Plant closings and business failures in the Milwaukee area are high, and layoffs happen regularly.

Fortunately, Ambrosia is a healthy company which has spent $100 million over the last 2 years to modernize, expand, and upgrade its manufacturing facilities and equipment. The current sugar price situation, however, threatens Ambrosia's future investment in the United States and may lead to the exporting of jobs and investment to Canada.

As a point of reference, before I continue further, chocolate can only be manufactured with sugar, not fructose, and 50 percent of chocolate is generally sugar, so it is a very important raw material.

The price differential between raw world sugar and raw domestic sugar currently stands at 16 cents per pound. Chocolate manufacturers in Canada are using the low world sugar price to undercut domestic manufacturers by exporting products into the United States. The 16-cent-per-pound sugar price differential is by no means compensated for by existing tariff regulation on chocolate and confectionery products. Our finished products currently have a 2- to 7-cent-per-pound disadvantage versus Canadian producers due strictly to the sugar price differential, and after allowing for tariffs and transportation cost to the United States. This is dramatic when the normal pretax profit of an organization such as ours is approximately 5 cents per pound. As I mentioned, the reason for this disadvantage relates directly to the sugar price support program. Import statistics confirm this. In 1981, the world price for raw sugar of 24 cents per pound was comparable to the domestic sugar price of 25 cents per pound. Since that time, the world price for raw sugar has dropped to 5 cents per pound, while the domestic sugar price—due to sugar price supports—has decreased to only 21 cents per pound. Over this same timeframe, imports of sweetened chocolate products from Canada have increased by 462 percent, from 13 million pounds in 1981 to 73 million pounds in 1984. With the current sugar price support system intact, we expect this import growth to continue, resulting in a direct loss to U.S. chocolate manufacturers. Our customer base is very price conscious and is aware of the favorable pricing available from Canadian manufacturers. Some customers have turned to Canadian suppliers, many are threatening to.

With the current price difference intact, we believe we may be forced to turn to production in Canada as a means of halting the deterioration of our business. This is an undesirable alternative both to us, to the Milwaukee area, and to the United States. We would certainly hope we could avoid this.

My testimony here is simply to bring to light the effect the current sugar price support policy has on U.S. chocolate manufacturers.

While we have no technological disadvantages versus our foreign competition and we continue to invest in state-of-the-art equipment, there has been a 462-percent increase in imported chocolate products since 1981 due to the sugar price differential between world and domestic sugar. Cheap foreign sugar is enabling foreign chocolate manufacturers to rapidly gain a foothold into the U.S. market. If not counteracted, this unfair foothold will quickly become embedded and proliferate in the United States to the detriment of the U.S. manufacturers. We believe that the sugar support legislation currently being prepared by Congress is a pivotal factor in determining the future success of the U.S. chocolate industry. We ask your help in keeping our industry competitive against foreign producers.

Senator ANDREWS. Thank you very much.

Our next witness is Tad Van Leer, the maker of these gold chocolates. You may proceed, Mr. Van Leer.

STATEMENT OF TAD VAN LEER, VICE PRESIDENT, VAN LEER CHOCOLATE CORP., JERSEY CITY, NJ

Mr. VAN LEER. Mr. Chairman, I would like to thank you for extending me the opportunity to talk to you about the effect of the sugar program on Van Leer Chocolate Corp. and the chocolate industry as a whole.

My name is Tad Van Leer, and I am employed by Van Leer Chocolate, a small three-generation family-owned chocolate plant located in Jersey City, NJ. We are committed to the Jersey City area and have put considerable money back into our plant and our workers.

Our plant produces bulk wholesale chocolate and related products for the confectionery, baking, and dairy industries. We are committed to providing the highest quality product and the best service available.

Although we have a very modern and efficient plant, we continue to suffer a disadvantage compared to Europe and European chocolate which have come in at more than 20 cents per pound under our product.

Why the difference? Our prices for cocoa are essentially the same and our plant is as efficient as any, but the current sugar and dairy programs have put us at a huge competitive disadvantage.

Foreign manufactuers pay one-third the price we do for dairy products which, at the minimum, comprise 12½ percent of a pound of milk chocolate, and they pay approximately 60 percent less than what we pay for sugar which makes up 50 percent of milk chocolate.

Basically while we are paying 95 cents for nonfat dry milk, Europeans, for example, are paying 33 cents. While we are buying refined sugar for 28 cents per pound, the Europeans can get the same product for 12 cents per pound. As a result, we have seen drastic increases in imported chocolates and related products.

Here is a chart which illustrates just how the imported chocolate market share has grown to the detriment of the U.S. manufacturers since the installation of the sugar bill. I would like to have the chart inserted in the hearing record.

Senator ANDREWS. We will put that in following your testimony.

Mr. VAN LEER. Foreign manufacturers' market shares have grown not because foreign manufacturers produce a better product or are more efficient but because the U.S. agriculture price supports make it impossible for U.S. manufacturers to compete. This not only threatens us as manuacturers, but it also works to circumvent the quota on imported sugar as every pound of imported chocolate brings in a half pound of sugar, which is not counted in the quota and is taken away from domestic growers.

I would also like to point out another sugar-related problem facing Van Leer Chocolate. Since the implementation of the current sugar program, we have seen our sources of supply continually shrink. In 1981, there were eight refiners in the Northeast. Today there are four, one of which curtailed his operations last week. At present, we can only buy from two refiners. Unless the sugar program is changed, we will lose additional suppliers as imported raw cane sugar continues to decline with the quota.

Mr. Chairman, I implore you to consider a reduction in the sugar price support. At present there is no other program more generous to a small number of farmers, paying them 3 to 10 times more per acre to plant sugar over other federally supported crops. This program has also cost the American consumers billions of dollars and has hurt the economies of underdeveloped nations that we are trying to help through such programs as the CBI. We continue to shrink import quotas, thereby depriving developing countries of a chance to export one of their largest crops. Where will they get the money to buy our agricultural exports? Where will they get the money to pay their debts?

Any sugar support program should be fair and equitable to producers, users, consumers, and taxpayers, and should not interfere with other Government programs. The present sugar program clearly has not worked, and we believe a more market-oriented approach would be in everyone's best interest.

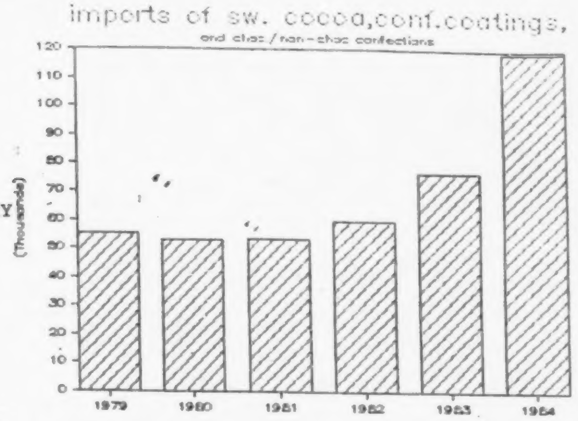
Thank you, Mr. Chairman, very much.

[The chart referred to by Mr. Van Leer follows:]

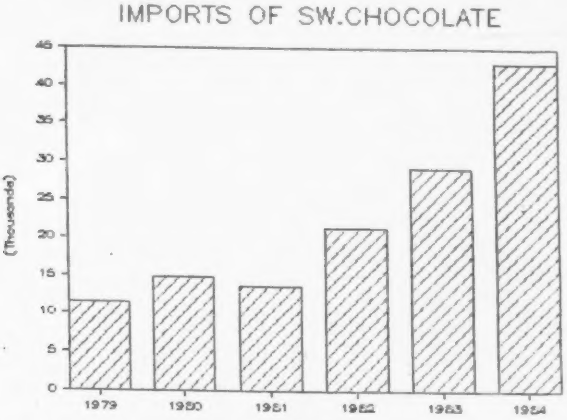
April 1, 1985

IMPORTS OF COCOA, CHOCOLATE & CONFECTIONS

NON-CHOCOLATE CONFECTIONERY
IMPORTS


imports of sw. cocoa,conf.coatings,
and choc/non-choc confections

SWEETENED CHOCOLATES


IMPORTS OF SW.CHOCOLATE

Source: U.S. Dept. of Commerce "U.S. Import, IM 145X"

Compliments of:
Van Leer Chocolate
110 Hoboken Avenue
Jersey City, NJ 17302

Senator ANDREWS. Thank you very much.

Next we will hear from you, Mr. O'Connell.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION AND NATIONAL CONFECTIONERS ASSOCIATION

Mr. O'CONNELL. Thank you, Mr. Chairman.

I will round out the discussion, and in keeping with your suggestion, simply summarize.[1]

I want to add another portion of our testimony which will cover additional confectionery concerns.

Since 1982, nonchocolate confectionery imports rose from 41,273 metric tons to 68,358 metric tons, an increase of 65 percent. The following is a scenario that was given to me by one of our members. If you were a buyer of sugar confectionery, I could offer you almost unlimited quantities of the following: Hard candies, individually wrapped, a variety of flavors, in vacuum-sealed packs, in various sizes for retail or bulk sales, prompt delivery, and at 55 cents a pound, except for one thing. The price quoted is for an imported product.

As a representative of U.S. confectionery manufacturers, I would have to sell it at 65 cents a pound. Most buyers of sugar confectionery, especially those reselling the product in bulk or rebagging for private labels, are buying on cost, not on brand name. We are competing for the consumer's business, not because the name of our product is easily recognizable but because the price is lower.

The problem is not only one of sales, it is one of jobs.

Here is another example. Recently one of our members considered acquiring a hard candy company's operation. They knew the company was struggling to survive. With our member company's knowledge of manufacturing and their existing channels of distribution, they could have overcome many of the problems facing the present manufacturer. Ultimately, they decided not to purchase the ailing company because they believed they could not be competitive against similar type candies now being imported into the U.S. market.

Most sugar confectionery contains between 40 to 60 percent sugar, depending on the sweetness and texture.

Sugar represents 70 percent of ingredient costs in sugar confectionery and 25 percent of the finished product cost.

At a 12-cent differential between world sugar and domestic refined sugar, a foreign confectionery manufacturer using world-priced sugar has an automatic 10 cents per pound price advantage over U.S. manufacturers.

Profit margins for hard candies are in the 5- to 10-percent range, and finished products sell for about 65 to 70 cents per pound. The nearly 10-cent price advantage of the foreign competitor is critical.

There is some normal trade in imports among manufacturers who import to fill out their product lines. We want this to continue. But what has occurred since 1982 is the importation of sugar confectionery to take advantage of the disparity between world and domestic sugar prices.

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[1] See p. 533 for the prepared statement of Mr. O'Connell.

We are an industry which prefers free trade, but under fair trade circumstances. We want to continue a policy position supporting free and competitive trade because we see opportunities to increase significantly the exportation of our products. But to do so, we need domestic agriculture policies which enhance, not inhibit, trade and allow us to compete in the domestic market as well as the world market.

Any sugar program should contain the following provisions:

No. 1, an elimination of import quotas on sugar.

No. 2, a reduction of sugar price supports by 5 cents for the 1985 crop year, 3 cents for the 1986 crop year, 1 cent for the 1987 crop year, and 1 cent for the 1988 crop year.

We are a member of the Sugar Users Group, and we support the position of that organization. We urge the committee to develop a sugar program which moves us away from the competitive disadvantage we currently face, to a situation where we can be competitive in all markets.

Thank you.

Senator ANDREWS. Thank you.

We next have Robert Hiller, who is the president of the Retail Bakers of America. Mr. Hiller.

STATEMENT OF ROBERT W. HILLER, PRESIDENT, RETAIL BAKERS OF AMERICA

Mr. HILLER. Good afternoon, Senator Andrews.[1]

You did have a lovely lunch and I brought the dessert, a box of cookies which cannot be made with artificial sweeteners.

My name is Robert W. Hiller. I am president of the Retail Bakers of America. I and my wife, Sandy, are the owners of Rollin' Pin Bakery in Janesville, WI.

I am here today to testify on the sugar legislation to be included in the 1985 farm bill. I appreciate this opportunity to appear before you. RBA's position may be summarized as follows:

One, we support our domestic sugar industry. We have no desire to bankrupt sugar growers. We have no desire to destroy the U.S. sugar-producing industry.

But we also support our own retail baking industry. We fear a repetition of what happened in 1974 and 1975. Sugar suddenly went from around 10 cents a pound to 50, 60, or 70 cents a pound almost overnight. This played a significant role in the demise of many retail bakeries.

We favor including sugar in the 1985 farm bill. We are not opposed to some form of price supports for sugar.

But we also believe there should be some way to limit how high sugar prices can go in the event of crisis or acute shortage.

We favor eliminating quotas on imported sugar.

In general, we support the position of the Sugar Users Group on sugar legislation. RBA is a member of this group. So is our sister association, the American Bakers Association.

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[1] See p. 534 for the prepared statement of Mr. Hiller.

As retail bakers we are vitally interested in the availability and cost of sugar for these reasons:

After flour, sugar is the most important ingredient in so many bakery foods. Our own bakery, for example, in a normal week, uses 4,000 pounds of sugar. This amounts to over 200,000 pounds a year.

There is simply no substitute for sugar in most of our products. In cakes, cookies, and bread, for example, we cannot use high fructose corn syrup or other sweeteners. High fructose corn syrup does not react well with yeast. The yeast does not grow and expand as well with high fructose corn syrup as it does with sugar. Cakes will not have the texture or moisture with other sweeteners that they do with sugar.

We are very sensitive to sugar prices. We do not have the space to store large quantities of sugar. Even if we had the space, we would not be able to use so much sugar in a reasonable time. It is not practical for us to play the market with hedging and futures contracts.

With the committee's permission, I will proceed to elaborate on some of these points. If you prefer, I will pause to try to answer any questions you may have now.

Senator ANDREWS. Thank you very much.

Mr. Hiller, I appreciate your summarizing your testimony and you have a backup, as I understand it.

Mr. PANARO. My name is Gerard Panaro. I am general counsel for the Retail Bakers of America.

Senator ANDREWS. Mr. Van Leer, you said you were buying refined sugar for 28 cents a pound for your candy-making operation, and the Europeans get the same product for 12 cents a pound. Given the fact that our support price, and we developed this before, is about 18 cents a pound, maxing it out about 22 cents per pound, and the European support is 27 to 28 cents per pound, maxing it out to about 30, how do they get their sugar for 12 cents a pound?

Mr. VAN LEER. I will defer to Mr. O'Connell.

Senator ANDREWS. Sure. I would be glad to have him answer it.

Mr. O'CONNELL. I think the comparative price he is referring to is the price the Europeans pay after they get the drawback.

Senator ANDREWS. What do you mean, after they get their drawback?

Mr. O'CONNELL. They have a drawback arrangement which is similar to ours. Where you export a sugar containing product, the government pays the manufacturer the difference between the domestic sugar price and the world price for the amount of sugar in the product.

Senator ANDREWS. So the competitive aspect is not due to the fact that the American producers are being supported at a higher price than the Europeans? They are being supported 30 percent less, but that the European candy manufacturer gets an export subsidy.

Mr. VAN LEER. Yes, sir.

Senator ANDREWS. Similar to the subsidy they get on their excess sugar, which is being exported for a nickel or so?

Mr. O'CONNELL. Let me reflect on that for a moment. That is true. The only country right now, to my knowledge, that is getting world price sugar on a raw basis is Canada. Japan might also but I do not know; 60 percent of the chocolate imports, which have been described here, are coming in from Canada.

Senator **Andrews**. And they have been trying to move sugar across the border disguised as a number of other things from Canada, as you know. It is interesting. Every time we sell a bushel of wheat in the European Economic Community, Durum wheat—they charge us about $3 a bushel entrance fee which they then use to subsidize the exports of the Common Market. So I would imagine that the American farmer is in a sense subsidizing your competition because it is the money they earn from that $2.50 or $3 a bushel entrance fee for the bushel of Durum wheat that they use to subsidize or bring down the price of sugar to 12 cents. It is a wonderful world we live in and they want $136 billion a year for their defense purposes.

Mr. **O'Connell**. I missed one country that does not have a support price on sugar, and that is Switzerland. Chocolate imports from Switzerland are increasing also.

Senator **Andrews**. Mr. Manning, I have a chart, one of these USDA charts.

Mr. **Manning**. I hope it is the same one I have.

Senator **Andrews**. This one is the one that has been floating around that indicates U.S. sugar prices. The chart shows that the Northeast price is consistently higher than Chicago west.

Mr. **Manning**. That is right.

Senator **Andrews**. Chicago west price, as I understand, averaged about 30 cents per pound compared to 40 to 49 cents for the Northeast. If there were no domestic beet sugar-producing industry in the West and you had to buy your sugar from refiners located in the Gulf and the Northeast port cities, you could not continue to get it cheaper than your competitors in New York. As a matter of fact, you probably would have to pay more than your competitors in New York.

Mr. **Manning**. As I mentioned, we have two plants. We have one in Newark, NJ, and one in Milwaukee, and there is about a 2-cent differential between those two plants.

Senator **Andrews**. But if it went the other way, then your plant in Milwaukee would be paying more for sugar than your plant in New York.

Mr. Hiller, what effect has the sugar program had on prices for baked goods?

Mr. **Hiller**. If we roll back to when the gigantic increase came into effect, in my own town we had seven retail bakers. It put four of them out of business. They could not adjust fast enough to it. They still continued to make cakes and cookies which used high amounts of sugar, instead, I guess, of being business wise about it and making bread, which contains much less sugar. They could have survived. But they did not do that. And so what we actually lost was a lot of customers because we stopped manufacturing the items that we overpriced to the consumer.

When we started raising our price, when the sugar got up to 50 cents a pound, we started raising a cake we used to sell for $2 and now we were going to sell it for $10. We priced ourselves right out of the market, and that is exactly the way it worked.

Senator **Andrews**. It went from $2 to $10 because of the increase in sugar prices?

Mr. **Hiller**. I am talking about sugar-related items actually. If we went in, let us say, for instance, and took a cake that had 40 percent sugar use and, at the very same time, there was a lot of things relative to this. Cocoa at the same time as coffee went up from 71 cents a pound——

Senator **Andrews**. Mr. Hiller, how much sugar is there in a 1-pound loaf of bread?

Mr. **Hiller**. About a quarter of an ounce.

Senator **Andrews**. If they lowered the price of sugar, as you are suggesting, to 4 cents a pound, how much would that reduce the price of a loaf of bread?

Mr. **Hiller**. This statement was brought up before. I guess in relation to the loaf of bread, you could hardly figure it out.

Senator **Andrews**. About a quarter of a cent, would it not? How much would you lower the price of that bread to the consumer?

Mr. **Hiller**. In talking about bread, we are in the right price market for bread. To roll back to the high usage of sugar content which was in the cake and cookies and doughnuts, we did lower our prices on them. We had to lower them. As a matter of fact, at that time we stopped manufacturing any item that used a lot of sugar and any item that used a lot of cocoa. And when the prices started to roll back to normal, then we brought the product back out, and on some of the products we lowered the price and on some of the products we just brought in new prices.

Senator **Andrews**. In the case of bread, that is a staple, not Marie Antoinette Cake and similar goods. That staple of life, bread, has a quarter of an ounce of sugar in each loaf?

Mr. **Hiller**. Right.

Senator **Andrews**. Actually, your statements are remarkably complete.

Mr. **Van Leer**. May I say something?

Senator **Andrews**. Sure.

Mr. **Van Leer**. We are a bulk chocolate manufacturer, and we price directly off the market. Any decreases in the price of sugar are immediately passed on to our customers and the consumer.

Senator **Andrews**. That is true.

Mr. **Van Leer**. With it being over 50 percent, every penny that sugar comes off, the consumer saves 50 points.

Senator **Andrews**. That is true. The only thing wrong is that when the price of sugar went up, the price of a can of Coke went up, and the price of a candy bar went up. But when the price of sugar went down, the candy came down somewhat but, the price of a can of Coke did not come down. The interesting thing is, when the price of sugar went up, and that was at a point in time when we did not have artificial sugar, it went up to 65 or 70 cents per pound. The price of a can of Coke went up also. Producers used the excuse that the sugar content, necessitated the increase. It is equally amazing that Diet Coke went up the same way.

Mr. **Van Leer**. Yes, sir.

Senator **Andrews**. That is again the smoke and mirrors they do it with.

Mr. O'CONNELL. It was not true in the chocolate and confectionery business.

Senator ANDREWS. I am not labeling it that way. You are probably in the one area that uses more sugar as a percentage of cost of product than any of the others. One of the things I did not know, which I do now, is that your European competition gets subsidies. Has your confectionery group ever thought of proceeding to the Tariff Commission and filing a charge against them on the basis of subsidized exports?

Mr. O'CONNELL. We did that recently. We asked the USDA to investigate four chocolate products where imports have increased dramatically during the life of the 1981 farm bill. We feel these increases are interfering with the Domestic Price Support Program for sugar. It is at the state right now where we are waiting for a letter that is coming from the White House over to the ITC.

Senator ANDREWS. Thank you very much. We appreciate your appearance, gentlemen.

Our next panel is a panel of sugar producers, John Bushnell, president and chief executive officer, Holly Sugar Corp., Colorado Springs; Bill Cleavinger, president, Texas-New Mexico Sugarbeet Growers Association; George Butts, president of the California Beet Growers Association, Los Banos; Gerald Shannon, president and chief executive officer, Minn-Dak Farmers Cooperative, Wahpeton, ND; Mike Warner, president of the Red River Valley Sugarbeet Growers Association, Fargo, ND; and George Grant, president of the Idaho Sugarbeet Growers Association, Rupert, ID.

Gentlemen, we are glad to have you here. You have been very patient. Let me assure you that the statements you have prepared will appear in the record as though given in their entirety. You can summarize them any way you want or you can pass.

Mr. Bushnell, do you want to begin?

STATEMENT OF JOHN BUSHNELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HOLLY SUGAR CORP., COLORADO SPRINGS, CO

Mr. BUSHNELL. I will be happy to, Senator.

My name is John Bushnell. I am president and chief executive officer of the Holly Sugar Corp., which is a publicly held corporation headquartered in Colorado Springs, CO.

I have submitted a statement and you have indicated it will appear as a part of the record.

Senator ANDREWS. Yes, sir.

Mr. BUSHNELL. With additional charts attached.

Senator ANDREWS. The charts and statement will appear in the record.[1]

Mr. BUSHNELL. In preference to reviewing the statement with you in detail, I would prefer, at least as my part of the presentation within the time constraints we are operating under, to deal with some of the points that have been made by groups that have immediately preceded us here in testimony because I think there are some very serious misconceptions that need to be straightened out in the record.

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[1] See p. 536 for the prepared statement of Mr. Bushnell.

The first one, Mr. Bayh repeated in his comments to the committee the unfounded accusation that a 1 cent increase in the price of sugar results in a $257 million increase in user costs and a $300 million cost impact on consumers. I think that he must not have been present in the room when Senator Matsunaga this morning made the point that during the term of the existing legislation there has actually been a 4-percent decrease in sugar prices during that period of time. If you look at wholesale prices for sugar-containing products, there has been a 12- to 14-percent increase in the wholesale prices for those sugar-containing products.

It leads one to a real question about exactly what would happen in the event that you followed the premise they are suggesting to the committee that sugar price-support loan levels should be reduced substantially, thereby reducing costs ultimately to the consumer.

I remember, as I am sure you do because we referred to it earlier today, the period in 1974 when sugar prices went up very substantially and Coca-Cola and other soft drink bottlers justified very substantial price increases based on the sugar content but, at the same time, they escalated the price of Tab which contained no sugar, and also escalated the price of club soda which contained nothing other than carbonation.

I have a question in my mind, and I have made the same point to my shareholders, whether or not, in the event that something were to happen to reduce sugar prices, you would not see Coca-Cola purchase Twentieth Century Fox in addition to Columbia Pictures, and simply come back and tell the committee and the American consumer that the cost of cans, and carbonated water, and caramel coloring had increased to offset what had happened in sugar prices.

I think that one of the members from Florida made the comment that back in the days when sugar was the only sweetener in soft drinks, a 16-ounce can or bottle of soda contained only 2 cents worth of sugar to begin with, and I really seriously question the credibility and the intention of the suggestions that are being made by at least the soft drink industry.

Dr. Knutson made the point, which I believe will be addressed by one of my colleagues on the panel, that sugar crops are generating substantially higher dollar returns for sugar than for other crops. Again, either Dr. Knutson was not present in the room or he simply did not hear the point that Senator Matsunaga made and which I think Mike Warner, who is on the panel, will address in more detail, that when you invest two and one-half times the dollar amount to grow a crop of sugar beets as you do for comparable acreage of corn or six times the amount of dollars to grow a crop of wheat than you do a comparable acreage of sugar beets, that there should be some matching of the dollar returns in order to even out the analysis of what kind of return one is getting. The point that Senator Matsunaga made is you do not or you should not expect to get the same return on a $100 certificate of deposit, assuming the same interest rate, that you do on a $1,000 certificate of deposit. If that is Dr. Knutson's aggie economics, then I think we have got a very serious problem if that is, in effect, what he is suggesting.

When you convert the returns to a percentage on the variable costs expended to grow the sugar crop, you find that sugar crops, cane and beets, are in the middle and, in fact, possibly slightly below the median point in the returns that are achieved based on the variable-cost dollars that are expended on competitive crops.

There was also a comment that Dr. Knutson made that high fructose corn sugar was growing only because of the sugar program. I would submit that the technology for the development of the enzymatic conversion of starch molecules into fructose molecules started in probably the midsixties and that technology has simply developed and resulted in the development of a product that, when combined with byproduct credits received for corn that is processed in the corn-processing industry in the Common Market, the gluten meal that is exported over there and that is exempt from the $3 entry fee that you have referred to on wheat and the entry fee that is imposed on corn, gluten meal goes around that. When you take a look at the amount of this byproduct credit, that is a major reason why there is an economic advantage at the present time for high fructose corn syrup and it has nothing to do and had nothing to do with whether we did or did not have a sugar program in effect.

I suppose we could have adopted as a country the policies that Japan and the Common Market have adopted regarding high fructose corn syrup, and that was simply to prohibit its use. Japan allowed the industry to get started but has now capped its production at half a million tons because of the impact on their domestic sugar industry.

I think that in our spirit of technological competition and free enterprise in this country, that is contrary to what our whole economy and society expects and has expected in the past.

Mr. Kominus made a point in his testimony that we have a situation in the domestic industry involving mismanagement and possible inefficiency that may generate part of the reason why we need the support levels that we need. One of the points that I make in my testimony is that the domestic industry certainly has not been resting on its laurels expecting tremendous returns from existing sugar legislation and the extension of that legislation. My company, for example, which is only one of a number in the domestic industry, has invested a very substantial amount of money, which will total over $37 million by the fall of 1986, to improve our cost effectiveness and efficiency, particularly in terms of fuel utilization to offset the 1,200-percent increase in fuel costs that we have had since the late 1970's and the early 1980's.

Mr. Kominus made the comment that he noticed in one of the Hawaiian company reports that they had lowered their cost of production so present support levels are uneeded. I think that if he went back to—and I believe he was here at the time—the legislative history of the existing sugar legislation, the whole thrust of the legislation was to protect the producers. The processors were left to fend for themselves. It has been a major effort on the part of all of the processors in Hawaii, California, in the domestic beet industry, Louisiana, and Florida, to invest substantial amounts of capital in order to preserve our ability to continue in a profitable mode. Certainly no one in the industry that is producing the sugar that is being used in the sugar containing products is making a bonanza. Holly certainly has not contemplated and I have not heard of anyone from Florida, or Hawaii, or Louisiana buying Columbia Pictures or Twentieth Century Fox. The accusation that has been made that we are an inefficient industry and need to have a support level at the current loan level of 17¾ cents is based upon some things that I think we as a country have established as a policy, and I go back to an example that was given earlier in another forum by a colleague of mine who is the president of the American Crystal Sugar Co.

The Brazilian delegate at a meeting we attended talked about their ability to produce sugar at somewhere between 8 and 12 cents a pound on a raw basis, and he was asked how much do you pay your workers. The man answered that it was somewhere around 3 million cruzeros a month. Charlie Shammel did some conversion, using the Wall Street Journal tables of currency, and it worked out, as I believe you mentioned earlier today, $75 a month.

My company, which is the second largest in the beet sugar industry, employs 2,400 people. If we paid them $75 a month, we would be able to reduce our costs by about $25 million a year or roughly $2.70 a hundredweight. But I do not believe that that is what this country wants to do in terms of preserving the standard of living that we have established through our social policies.

Some of my grower colleagues will address issues that also make it more difficult for the industry in the United States to be as fully competitive. There are rules this society has adopted concerning social conditions, environmental conditions and policies that we wish to establish, and other matters such as worker safety.

I guess the thrust of what I am trying to say is that in addressing Mr. Kominus' remarks, that if you all are paying 66 or 69 cents a pound for sugar in the Washington, DC, area and the closest beet sugar refinery or cane sugar production is about 1,800 to 2,000 miles away, think of what you might be paying if there were no domestic industry to provide some competition to the refiners. Our prices out West are in the neighborhood of about 35 cents a pound, and I would think that Mr. Kominus ought to be looking at the efficiency of the refining industry. If he is trying to get that kind of a price out of the marketplace, I am not surprised that there have been some refineries that have gone down based on that kind of operation.

The thrust, I suppose, Senator, is that we would like to ask for continuation of the price support legislation for the basic reason that it has insulated the consumers in this country from the volatile world sugar market, and it insulates the producers of the domestic sugar crops from the wide range of Government schemes that exist throughout the world that result in dumping heavily subsidized sugar onto the world market.

I thank you for the opportunity to present my views.

Senator ANDREWS. Thank you very much, Mr. Bushnell.

[The following information was subsequently received by the committee:]

HOLLY SUGAR CORP.,
Colorado Springs, CO, April 15, 1985.

Hon. MARK ANDREWS,
U.S. Senate,
Washington, DC.

DEAR SENATOR ANDREWS: Thank you for the opportunity to appear before your Committee on April 2 to testify on behalf of the U.S. beet sugar industry to continue the existing sugar program unchanged in the new Farm Bill.

A critical part of the evaluation of the present sugar program that I failed to review because of time constraints is the important positive revenue contribution the sugar program has made to the U.S. Treasury. As shown in the attached table, the sugar program has generated over $350 million in revenues since its adoption in 1981. Although import fees have now been suspended on raw sugar by the Administration, and duties for raw sugar imports from Australia, South Africa, Brazil, the Philippines and Canada were lowered to the statutory minimum in January, revenues from the sugar program during the current fiscal year will add to the $350+ million total. In the struggle to cut the deficit, the revenues produced by the present sugar program have made and can continue to make a valuable revenue contribution to the U.S. Treasury. Few, if any, other Federal programs can make the same claim.

I respectfully request you include my letter and its attached table as part of the record of my testimony before your Committee.

Again, thank you for the opportunity to testify.

Very truly yours,

JOHN L. BUSHENLL,
President and Chief Executive Officer.

	Interest paid		(1) Net gain over cost of funds	(2) Duties	(3) Fees	Total of (1), (2), and (3)
1981-82				$62,286,469	$141,084,526	$203,371,000
1982-83	$17,345 200	10.44	$3,106,851	82,465,425		85,572,280
		−8.57				
1983-84	19,716,271	10.72	1,765,637	64,486,856		6,252,493
		−9.76				
1984-85				[1]	[2]	
Total						355,195,000

[1] Duties lifted from Australia, South Africa, Canada, Brazil and Philippines January 1985. Revenue loss approximately $25MM.

[2] Import fees suspended March 1985—Revenue loss, $75MM.

Senator ANDREWS. Our next witness is Mr. Bill Cleavinger who is the president of the Texas-New Mexico Sugarbeet Growers Association.

We have your statement. Let me assure you it will be put in its entirety into the record. You can summarize it in any way you wish.

STATEMENT OF BILL CLEAVINGER, PRESIDENT, TEXAS-NEW MEXICO SUGARBEET GROWERS ASSOCIATION, HEREFORD, TX

Mr. CLEAVINGER. Mr. Chairman, my name is Bill Cleavinger, and I am a sugar beet grower from Wildorado, TX. I also raise cattle, corn, milo and grain sorghum. My wife, June, and both of my sons work full time on the farm with me. I am president of the Texas Sugarbeet Growers Association and am also vice president of the American Sugarbeet Growers Association.

Mr. Chairman, my main purpose here today is to clarify a misconception of the American sugar producer. As farmers who pride ourselves in being the most efficient food producers in the world, we are infuriated by those opponents of the U.S. sugar program who compare U.S. sugar prices with world dumped prices and then imply that the U.S. producer is inefficient, when they have no idea what is going on. I heard the president of Coca-Cola sit here this morning and tell about the poor farmer when he can sit in his ivory tower and have this misconception. He is not down in the trenches where this thing is taking place. He does not have to take the proposals that economists put out and take it to the bank and try to make it work because it will not work. I heard Ellen Haas sit here and tell about the plight of the consumer, and I am a consumer. I consume more than most of these other people do. [Laughter.]

Nobody seems to feel very sorry for that segment of the economy that has to consume the diesel, the natural gas, the gasoline, the tires, the parts, and the labor, and so on, but we are not considered as consumers so we do not come under her canopy, I guess.

The comparison of U.S. prices and world dump prices is not a comparison of producer efficiency at all. It never has been and never will be.

In order to compare grower efficiency between the U.S. and foreign producers, we must compare actual costs of production. Accurate and current information on foreign production costs are often unavailable or unreliable. This is mainly due to the dominant role which foreign governments have historically played in their sugar industries. The volatility of the currency value in many of the foreign sugar producing countries makes most cost comparisons obsolete in a matter of weeks or months.

Why is the U.S. sugar beet producer efficient? No. 1, sugar beets are grown in some of the finest and most fertile land in this country. In California, they are grown in the Sacramento, San Joaquin, and Imperial Valleys; in the Snake River Plains in Idaho; in the Platte River Valley in Colorado/Nebraska; in the Red River Valley in Minnesota/North Dakota; and in the Saginaw Valley of Michigan.

No. 2, the sugar beet grower has to be a good farmer and manager because he takes a greater financial risk than any other farmer of the other major commodities. USDA reports that the average beet grower in 1983 invested $605 per acre in his sugar beet crop. That compares with $146 per acre for wheat, $190 for soybeans, and $283 for corn. Specialized equipment is required in many steps of the growing process. Special mechanical thinners, defoliators, harvesters, and additional trucks are needed due to the tremendous volume of the beets, averaging 20 tons per acre. In areas where beet cooperatives exist, growers must put up an additional $400 to $500 per acre to purchase stock in the cooperative, which gives them the right to grow beets and have them processed.

No. 3, each year growers and processors work together in coordination with State agricultural colleges and universities on research and education. Thousands of dollars are spent for research to develop plant varieties, test for more efficient fertilizing techniques, study various crop rotations, conduct herbicide and pesticide experiments, and the list goes on. Many farmers directly participate in research by establishing test plots on their farms.

Growers meet with sugar company and agribusiness field technicians several times during the year to make sure they have all the latest information at hand to produce the best possible crop. If the grower has any questions, he can get professional and technical advice at a moment's notice.

No. 4, and the most important step in assuring efficiency is individual grower incentives. Every grower is financially rewarded or penalized for the quality as well as quantity of the crop he produces. This is spelled out in contractual agreements between grower and processor. When a grower delivers his beets, a sample is taken and tested for the amount of sugar contained in the beet and how much of that sugar can actually be extracted in the factory. It is a very sophisticated process, but necessary in order to maintain the incentives.

Each day the beet is in the ground, it grows and hopefully increases in sugar content. The beets are left in the ground as long as possible, then harvested and delivered to the factory. In fact, growers in some areas harvest 24 hours a day.

There are several obstacles to greater producer efficiency imposed by our Government, but these are in effect for the protection of the health and well-being of producers and consumers in the United States. EPA, FDA, OSHA, which is a very familiar part to all of us, minimum wage, workers compensation, weight restrictions on roads and bridges, and strict regulations on the use and application of pesticides and herbicides are a few examples. Many of our foreign competitors are not subject to such regulations and do not have this expense to contend with.

We have the best farmers, backed by a professional research and education program, working farms on the best land in the country, with financial rewards and penalties for the crop we produce. If there is a farmer who is not efficient, he simply cannot make it in this industry. It is just that simple.

Mr. Chairman, the farming community right now is having the toughest time it has had in decades. I literally have never seen the panic and agony caused by financial stress like it is in agriculture today. So let me assure you that if there are shortcuts, we have already found them. If there is a nickel to save, we have saved it. If problems still exist, we have been diligently working to solve them.

Therefore, we are asking this committee and the Congress to continue the current sugar program which has worked successfully for producers, consumers, and the Government.

I would like to say one thing. There was one bit of good news today. Dr. Knutson is working. I found out today he is being paid by a group he agrees with. I was under the delusion he was working for Texas A&M, and the farmers in Texas have found a great deal of his work that does not meet with their approval and does not agree with their work at all. So I am glad he is in a place where he can agree with the people. He has found much disfavor with the farmers in our area.

Thank you, Mr. Chairman.

Senator ANDREWS. Just a minute, Mr. Cleavinger.

You are from Texas. Dr. Knutson is listed as a professor at Texas A&M.

Mr. CLEAVINGER. I understand he is an economist. I asked a man one time——

Senator ANDREWS. So he is employed as a professor in economics.

Mr. **Cleavinger**. But when he testified, he said he was under the employ of——

Senator **Andrews**. I thought you said he had left Texas A&M.

Mr. **Cleavinger**. I wonder if he is working for two different people.

Senator **Andrews**. I just wanted to get the specifics for the record, but as far as you know, he is employed by Texas A&M.

Mr. **Cleavinger**. Up until today I thought that was his only employment.

Senator **Andrews**. Fine.

Our next witness is Mike Warner of the Red River Valley Sugarbeet Growers Association.

Mike, welcome to the committee. We have your testimony in its totality. We will put it in the record the way it is. Please summarize it any way you want or comment in any way or manner that you may want.

STATEMENT OF MICHAEL WARNER, LEGISLATIVE CHAIRMAN, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. **Warner**. Thank you, Senator.[1]

My name is Mike Warner. My wife, Joanne, own and operate our family farm in Hillsboro, ND, where we grow sugar beets, soybeans, wheat, and barley. Along with my four children, I have one full-time hired man and four part-time employees helping me.

I am currently legislative chairman of the American Sugarbeet Growers Association, and am here today to present the views of that association. All sugar beet growing associations in the United States, representing 14,000 contract holders in 13 States, are unified and in full support of this testimony. A copy of our membership list is attached to my statement for your records.

I would like to divert from my prepared statement for just a few minutes to discuss some of the accusations made by the preceding panel.

It was stated that wheat and corn sales are somehow obstructed by sugar policy. The leadership of the National Association of Wheat Growers are friends of mine, both the current president and the past president. I have known them for quite a long time, and I think if you asked them what is causing problems with the wheat trade, they would say that the strength of the current dollar is a big part of it, high interest rates are a big part of it, and the worldwide recession is a big part of it. They have no buyers. I assure you that if sugar was obstructing the trade of wheat, I would have known about it long before anyone in this room would have known about it. They have never made that comment to me.

It has been stated that high fructose corn sweeteners will eventually bury the sugar market. My friends in the corn business have told me they feel the use of high fructose corn sweetener is plateauing, especially with the final conversion of soft drinks to high fructose corn sweeteners from sugar.

The statements made by Ellen Haas—I raise wheat. I get about 4½ cents' worth of wheat and less than a penny worth of sugar out of a dollar loaf of bread. I am at a loss why certain elements of the consumer advocacy insists on coming to the producer's well to reduce consumer prices. I suggest that Ellen consult the people standing with her on the panel about significant reductions in consumer price.

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[1] See p. 539 for the prepared statement of Mr. Warner.

Let me build a little scenario around that consumer price issue. I maintain that the sugar section is not a consumer issue. Historically, the industrial users do not pass along the savings in sugar prices to consumers, but that does leave about 18 pounds that consumers buy off the shelf. Let us say that we knock 10 cents a pound off. Two things happen. Each consumer saves about half a cent per day, which, if they are smart shoppers, could be saved anyway when sugar is used as a loss leader. The second thing that happens is I go broke. I submit that this is a small price to pay to stabilize the domestic industry which, in the long run, will provide the cheapest price anyhow.

In short, this is not a consumer issue. It is an issue between survival of the domestic industry against the extra profits of the industrial users.

I also reject this preconceived notion that when some farmers are suffering, all farmers should suffer, and that attitudes between responsible people representing commodity groups should be dictated by jealousy and envy. I assure you the people I know have much clearer minds than that and operate on a much higher level than that.

When the sugar beet growers appeared before this committee in 1981, there were four basic goals they were trying to achieve with regard to sugar legislation. No. 1, assure a reliable supply of sugar; No. 2, stabilize the violent price swings; No. 3, avoid significant Government outlays; and, No. 4, establish a support program for sugar. I submit that the sugar section of the 1981 farm bill did just those things.

According to a recent report by the Economic Research Service of the USDA, average sugar beet growers in 6 of the 16 States lost money on their crop in 1983. Results on the 1984 crop will not be available until after September 30 of this year. But given the fact that the domestic price has been below market stabilization price for an extended period of time, I do not expect 1984 to show much improvement over 1983.

Mr. Chairman, producing a crop of sugar beets is significantly more cash intensive than any other supported commodity with the exception of sugarcane. For example, the variable expenses to produce 1 acre of sugar beets is equal to the variable expenses of 6 acres of wheat, almost 6 acres of soybeans, and 2½ acres of corn.

All farmers bet against Mother Nature, Senator, and when you bet a lot of money, you need a higher return because, as any farmer knows, when Mother Nature says it is zero, you lose much bigger in crops with higher input costs. She does not make adjustments on damage on the basis of my input costs. So, in short, if you have high costs, you need a better return.

Mr. Chairman, the way I see it, when growers are struggling to make ends meet and are providing an essential product to the U.S. consumers, which on a pound-for-pound basis is half the price of dog biscuits, there is room for upward adjustment in the sugar loan rate.

In conclusion, the American Sugarbeet Growers Association sees the current program as having been successful in achieving assured supplies, successful in achieving assured supplies at reasonable and stable prices for consumers at no cost to the Government and as a safety net for the grower. Therefore, we simply ask this committee and the Congress for an extension of the sugar title with loan rates which will reflect the increased cost of production.

Thank you.

Senator **Andrews**. Thank you very much for an excellent statement, Mr. Warner.

If you and your neighbors gave up producing sugar, what commodities would you be growing instead?

Mr. **Warner**. Wheat, barley, possibly some soybeans.

Senator **Andrews**. Our next witness is Gerald Shannon, the president and chief executive officer of Minn-Dak Farmers Cooperative of Wahpeton, ND.

Welcome to the committee. Let me assure you that we have your statement. It will be entered into the record as though you gave it in its entirety. You can summarize or comment in summary any way you wish.

STATEMENT OF GERALD W. SHANNON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MINN-DAK FARMERS COOPERATIVE, WAHPETON, ND

Mr. **Shannon**. Thank you for the opportunity to appear before the committee today.[1] I am Gerald Shannon, president and chief executive officer of the Minn-Dak Farmers Cooperative, a 309-farmer-owned beet sugar processor headquartered in Wahpeton, ND.

The more than 300 Minn-Dak grower-owners raised sugar beets on some 58,000 acres of land each year, every 3 years in rotation with wheat, barley, corn, et cetera. With average yields of some 17.5 tons per acre, we get delivery of some 1 million tons of sugar beets each fall. From these beets we extract around 220 million pounds of sugar and thousands of tons of sugar beet byproducts with a market value for the most current year of about $70 million.

In discharging my duties and responsibilities to my owners, I have obviously been remiss after listening to some testimony this morning from Mr. Kominus. We failed to market any sugar in the Washington, DC, area where, according to him, 2 pounds of sugar is $1.39. I probably could have improved on our return in excess of the $10 million by doing that. Incidentally, in Fargo, you can buy 10 pounds of sugar for $1.89.

Senator **Andrews**. But, Gerry, you really do not believe everything the USDA says, do you?

Mr. **Shannon**. Most of it.

During the 3-year history, Mr. Chairman, of the current sugar loan program, it has cost the U.S. Treasury zero dollars. That is one of the goals that obviously everyone, including OMB, alludes is necessary to getting any new legislation.

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[1] See p. 542 for the prepared statement of Mr. Shannon.

As an aside, Mr. Chairman, the sugar title included in the administration's proposed 1985 farm bill would, on the one hand, ultimately put my cooperative out of business and while doing so, would hand a heavy expense to the taxpayer. It proposes direct payments also from the Treasury to make up for greatly reduced income currently being achieved by the U.S. industry in the marketplace.

As has been stated earlier, the sugar program enacted in 1981 is working and works admirably. As chart A of this testimony clearly shows, the program has resulted in stable sugar prices, and stability is of less concern to huge industrial buyers of sugar who can hedge purchases on the futures market. However, previous testimony has shown how detrimental it can be to the mom-and-pop bakery concept. They simply cannot jiggle the prices every time there is a dramatic change in the prices of their ingredients.

You will hear from those who maintain the price of sugar, though stable, is too high in the United States, and they will use, for instance, the price of sugar in the world dump market as a comparison to U.S. price and suggest the difference, multiplied by American consumption of all sweeteners, constitutes a cost of the sugar program to U.S. consumers, ignoring the fact that precious little sugar is actually traded at these prices.

Senator ANDREWS. Gerry, when you talk about trade in the world market, I probably was negligent in not asking this earlier, but the Europeans export only white sugar, as I understand it. Is that not true?

Mr. SHANNON. For all intents and purposes, that is what it has evolved to at this point.

Senator ANDREWS. Why is this? Do you know, John?

Mr. BUSHNELL. I have not been to Europe in a number of years, but my understanding from talking with some of our present officers and former members of the staff is that they have mostly beet refining capacity that can take beets and make them into white sugar, and they use the same reexport program that the confectionery people were talking about to try to maintain throughput through their refineries, but use the drawback on sugar that is brought in refined and then exported as white sugar.

Senator ANDREWS. I understand the U.S. only imports raw sugar.

Mr. BUSHNELL. That is substantially correct, other than the stuff that comes through the leakage in the Canadian border that we have attempted to address recently.

Senator ANDREWS. Why do we only import raw sugar?

Mr. BUSHNELL. I think it is probably because of the freight differential and disadvantage of being able to bring in raw sugar and then refine it into a product that will meet Food and Drug Administration standards as opposed to bringing in white sugar that would have to be packaged and protected in very substantially and more expensive ways.

Senator ANDREWS. Then if we were to open our markets and allow unrestricted imports of raw sugar, how would our prices be affected by European exports of white sugar? We import only raw sugar. How are we going to take advantage of that dump price if we open up our borders since we do not import that kind of sugar?

Mr. BUSHNELL. I would suspect under that kind of a scenario what would happen would be that the Canadians and the Europeans would import raw sugar off the world market, would refine it and would ship it to this country, and there would be no refining industry as there would be no domestic beet sugar industry and no domestic cane sugar industry.

Senator ANDREWS. So then if we were to go the way of no price support programs, and if, as the Texans and Louisianans, the Floridians, the Hawaiians, now the Midwest beet producers are testifying, we would have people just forced out of producing sugar here. We would not be importing raw sugar and we would be importing white sugar, so the coastal refineries would be out of business too.

Mr. BUSHNELL. That is what I think Mr. Kominus overlooks.

Senator ANDREWS. I just wanted to get that in the record.

Gerry, I am sorry to interrupt you. Go ahead.

Mr. SHANNON. To continue, Mr. Chairman, I think this might be an appropriate place to interject and depart from my prepared comments.

Something that has been bothering me is in prior testimony or previous testimony, there are those who have taken to task the effect on the CBI countries of the current program, due to blaming those programs for forcing these countries onto the world market due to our quotas. However, in going back to the year 1979, which was the highest import year in previous history I could find, the CBI countries exported 1,776,000 short tons raw value to the United States with a customs value of $344 plus million. In 1984, admittedly the tonnage had decreased to 1,173,000 tons. But the customs value had increased to $448 million.

Obviously, Mr. Chairman, little blame for the demise of the sweetener industry in the CBI countries can be attributed to our current sugar program.

In addition, the USDA has come under some criticism today. However, I would like to interject that I think they have done an admirable job in protecting something about as important as the loan level that is involved in this program, and that is the integrity of the program. The USDA has labored diligently to administer the program in the face of some cleverly conceived market disrupting practices, such that as soon as one loophole is closed administratively, another pops up. Much of the sugar arriving in the United States in defiance of the spirit of our present program is coming across the border from Canada. Some estimates are it is as much as 205,000 tons of sugar equivalent that came into the United States last year despite efforts to stem the tide.

Incidently, this was twice the production of my firm. These sugar blends shipping into this country are not and were not legal. But since the sugar containing products were not considered in establishing the import quotas, the market disruptions caused by importations were severe. The impact was not only on United States producers such as Minn-Dak and refiners, but on worldwide sugar trading partners as well.

I think, Mr. Chairman, that concludes the comments I have, and I thank you now at this time for the opportunity to appear before this committee.

Senator McConnell [presiding]. Sorry that we keep changing players.

Mr. Grant, you are next.

STATEMENT OF GEORGE GRANT, PRESIDENT, IDAHO SUGARBEET GROWERS ASSOCIATION, RUPERT, ID

Mr. Grant. Mr. Chairman, my name is George Grant, and I own and operate our family farm in Rupert, ID. In 1955, my wife and I homesteaded and raised a family on the farm on which we now live. Three of my sons actively farm with me. We produce sugar beets, potatoes, wheat, and dry beans. I also serve as president of the Idaho Sugarbeet Growers Association.

The sugar beet industry plays a major role in thousands of farming operations in this country and is critical to even thousands more small local economies. Each year approximately 14,000 sugar beet contract holders spend over $638 million to produce the beet crop in the United States. Added to that total are millions of dollars spent on jobs, supplies, and transportation by the beet processors. It suddenly becomes very obvious that our industry spends a significant amount of money in all of our small communities. The sugar program is not just a benefit to the sugar producers.

My point is, Mr. Chairman, that no industry lives or operates in a vacuum. The benefits of the sugar program reach far beyond those 14,000 contract holders. Every merchant on main street and all of the local chapters of the chamber of commerce in our towns want to make sure that the industry stays alive and strong. The hardware store owner, tire salesman, school superintendent, and, yes, even the minister are concerned about our beet industry. The success of their local businesses and organizations directly corresponds to the success of ours.

There are also many areas in States far removed from the sugar beet country that benefit from our industry. Many assembly line workers, technicians, and suppliers of farm equipment, trucks, pickups, herbicides, pesticides, and fertilizer products benefit from the sugar industry. These workers may have never seen a sugar beet in their lives, but they still benefit from our existence.

A great deal of interest and concern about sugar's future in our area comes from those growers who produce alternative crops. For example, if sugar beets were forced out of production in Idaho, a great portion of the 154,000 acres of sugar beets would turn to the production of potatoes. This would devastate the potato market and mean economic disaster for most farmers in Idaho. With the farming community currently in such a brittle financial condition, we simply cannot withstand any further decline in farm income.

Not long ago, several industries flourished in our region. Feed lots for cattle were abundant. It was common to see large herds of sheep grazing in the pastures, and the desert lands, and forests of all the intermountain area. Dairy farms were also plentiful. Today, the feed lots are gone. This loss of agricultural diversity has added considerable pressure on the remaining crops. We cannot continue to farm today growing wheat and dry beans, and we certainly do not need more acreage in potatoes. Sugar beets are literally the lifeline to our survival. I know that similar conditions exist for beet growers in the other areas across the United States.

Some opponents of the sugar program have been preaching that simply because our industry is not as big as the other major commodities, it is not very important and that somehow, somewhere we could be absorbed into other areas of agriculture. I do not think the Congress wants another million acres in corn, wheat, beans, or cotton.

This committee should also note that in 1983 the average U.S. sugar beet grower produced enough sugar to supply the total sucrose needs of over 8,400 Americans, which proves that being smaller does not make us less important. In fact, it makes each grower that much more important.

Mr. Chairman, the presence of sugar in processed foods has allowed the American consumer to choose from a huge variety of preserved, canned, frozen, and prepared foods that offer a balance of nutrients. If all of our food items had to be prepared or processed in our homes, we would find ourselves limited to those items locally grown.

Because sugar is safe, versatile, and the premium sweetener at 16 calories a teaspoon, it plays an essential role in the diet of a nation that is considered to be the healthiest in the world. As beet farmers, we are dedicated to supplying a portion of the sweetener needs of the American consumer. It is a challenge and responsibility that we take seriously and proudly accept.

We therefore ask the U.S. Congress to continue the current provisions of the sugar program in the 1985 farm bill.

Thank you.

Senator McCONNELL. Thank you, Mr. Grant.

Mr. Butts, George Butts.

By the way, I forgot to introduce myself. I am Mitch McConnell. I am a Senator from Kentucky, the junior Republican on the committee. We do not have many sugar beets in Kentucky, but I am interested in the subject anyway.

Mr. Butts.

Mr. BUTTS. We will bring you up to date on sugar.

Senator McCONNELL. I bet you will.

Mr. BUTTS. Thank you, Mr. Chairman.

STATEMENT OF GEORGE BUTTS, PRESIDENT, CALIFORNIA BEET GROWERS ASSOCIATION, LOS BANOS, CA

My name is George Butts. I am a diversified farmer from central California, which is the San Joaquin Valley.

I appear before you here today on behalf of more than 1,600 California sugar beet growers who are members of our Beet Growers Association. I am also a member of the board of directors of the American Beet Growers Association.

I prepared full testimony which I have handed in and will summarize my remarks with excerpts of the highlights.[1]

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[1] See p. 546 for the prepared statement of Mr. Butts.

California is the leading sugar producing State in the Nation. The beet sugar produced by our growers and processors and the cane sugar produced in Hawaii and refined and marketed by the C&H Sugar Co. from their Crockett, CA facility results in over 1.4 million tons of domestically produced sugar moving through our State. The market value of this sugar is approximately three-quarters of a billion dollars.

California sugar processors spend $55.1 million annually for fuel. Freight on sugar and sugar beets generates another $86 million of revenue. Our growers spend nearly $80 million in their local communities for seed, fertilizer, custom work, fuel and other supplies and services.

There are over 5,000 people in the State whose jobs are directly related to processing and refining sugar. We estimate the farm payroll just for producing sugar beets is nearly $18 million annually. So you can see from these examples that sugar is very important to our State's economy.

Currently, sugar beets are the sixth leading field crop in California. The crop dropped from fourth to sixth during the life of this current sugar program. The provisions in the current legislation only support the most efficient operations.

In 1981, Spreckels sugar division closed their Salinas Valley factory. The climate and soil in the Salinas Valley are conductive to producing vegetable crops.

Land costs are high in this area and sufficient sugar beets for that factory could not be economically produced locally. Much of the tonnage had to be shipped to the Spreckels factory at high freight costs from other producing areas of the State. Even with the support provided under the 1981 farm bill, it was uneconomical to operate the Salinas Valley factory. This closure reduced California's ability to process sugar beets substantially, which converts to about 40,000 acres.

This year, sugar beet growers in California planted over 200,000 acres of sugar beets, and we anticipate that the four California beet processors, who operate eight factories, will turn out approximately 12 million bags of refined sugar from our crop with a market value of approximately $276 million.

The current program has not returned full cost of production to all growers in California. Table 1, which is presented with my testimony, which is part of my remarks, shows that if our projections are correct for the 1985 crop year, in only 1 out of 4 years did the sugar support program produce a profit for growers of average yields in our State. The other 3 years, average growers have shown red ink on their ledgers.

California qrowers, who have traditionally produced sugar beets, maintain this crop in their rotation programs. A combination of crops provide market diversity, and with the present farm bill protection, the financial risk in beets is no greater than with other crops.

California sugar beet growers are using all current technology available to improve our production and lower our costs, and included in these efforts is major emphasis on new varieties to improve production and quality.

Current USDA crop estimates report that California growers are planting approximately 19 percent of the sugar beet acreage in the United States. The projected yield in California is 24.7 tons per acres, resulting in approximately 23 percent of the U.S. sugar beet production coming from California.

We are highly productive in our California sugar beet industry, but our cost structure is high in comparison to foreign producers. In California, growers are regulated, in addition to all Federal laws, by State laws with regard to overtime pay, working conditions, hours and days of work, housing and other employee protections. In addition, we have air pollution and other things we must meet which in our State are very stringent. These stringent and expensive precautions are made up to assure safe and healthful working conditions. All these precautions have made our farms and factories the safest and our workers the best paid in the world. However, they increase our cost structure and make us uncompetitive with producing areas who do not operate under these standards.

Some people suggested that since California produces nearly 250 crops, eliminating sugar would not be a problem or affect our State. This is not so. Alternative crops are limited for individual farmers, and if sugar beet production were stopped in California, this would pull 200,000 acres of prime farm land out of production, out of sugar production, to be diverted to other crops, resulting in increased plantings of other crops that many times are in overproduction, some of which are held in surplus by USDA stocks and others are price supported at a high cost to the Government.

The consumer would be well served by continuation of this support plan that we presently have. Again, if you refer to table 1 in my testimony, you will note in 1983 the net selling price of sugar in California was the highest during the life of the current legislation. The reason for the price increase was because there was a shortage of sugar in California as a result of lower acreage of sugar beets in 1982 and 1983. The lower acreage was a result of rain interrupted plantings that resulted in less sugar available to market in our State.

By this reference, you will see the small decline in production in a given area can substantially increase consumer prices.

In summary, the current sugar program is working, and we believe that it is working well. It has protected our industry and has not resulted in cost to the Federal Treasury. We believe that beyond 1985 the sugar provisions in the farm bill must be maintained at a level of support of no less than the current levels, and consideration must be included that reflects the cost of production for future support.

Failure to enact a Federal program to support the domestic sugar industry will lead to its demise. A lack of a domestic sugar program, in our opinion, will make the United States totally dependent upon offshore sugar for our supply and is certain to raise the price of sugar to the consumer.

I have appreciated the opportunity to be able to present our views. I would like to make one more comment. I heard today more than one person refer to the fact that the world prices of sugar are four or five times what they are here in the United States, and I do not believe that anyone has pointed out that when you refer to the raw world price of sugar, you are talking about 3 or 4, 5 cents a pound. This is unrefined sugar. And when the refining costs are added, it would not reach 22 or 23 cents, but it is substantially higher than what they are talking about here today.

I thank you.

Senator McConnell. Thank you, Mr. Butts.

The staff has prepared several questions I would like to ask you. All you gentlemen, any one of you can take a stab at it if you want to.

Since Congress passed the Sugar Act in 1982, has beet acreage increased or decreased, and by how much?

Mr. Bushnell. I will try to comment on that, Senator. I think that as a general rule, beet acreage has not increased. I think in the State of California, as Mr. Butts just referred, in 1981, 1982, and 1983 there were some very serious weather problems that decreased acreage below normal levels. In 1984 acreage returned to more normal levels, but it is still below the level that it was, I think Mr. Butts indicated, prior to the enactment of the legislation.

There has been no substantial increase or expansion in the beet sugar industry as a result of the current legislation.

Mr. Butts. May I add something, Mr. Chairman?

California, as I think many other localities are, is limited by its ability to process sugar. We lost, several years ago, a factory in California. We lost one a couple of years ago, as I recited. That lowered our acreage by 40,000 acres. There is no room for additional acreage because of the facilities for processing, and I am sure that there is not anyone that is interested in building a factory there.

Senator McConnell. Has processing capacity increased or decreased?

Mr. Bushnell. Processing capacity through the course of the legislation has actually decreased. Two major sugar beet plants have closed. One that Mr. Butts was referring to in Salinas, CA; another one in Chandler, AZ. There are other plants now that may or may not continue to operate, depending upon the outcome of bankruptcy proceedings involving that particular company.

There are some situations where, for example, in my company, and I believe in some of the other beet processors, as we have attempted to improve our cost efficiency by installing certain pieces of equipment to reduce the costs on some part of the process, that has removed bottlenecks that have permitted higher rates of processing, but that has not had a consequential increase in capacity in the industry.

Senator McConnell. In your judgment, then if we were to continue the program at 18 cents, would there be additional closures, or what do you think would happen if we continued the program at 18 cents?

Mr. Bushnell. I think there are a number of plants in the beet sugar industry that certainly would have to be considered marginal at the level of support that we are talking about, at 18 cents. Whether they would be able to sufficiently change their fuel sources and their cost efficiency during the term of the legislation to survive or not, I would not want to venture at this point.

I do not think that there is any reasonable expectation, even on the part of our opponents, that anyone would venture the very substantial amounts of money, of $150 million, to build a new beet sugar processing plant, in an environment in which we are barely breaking even, with the uncertainty, the dependency on continuation of the legislation, with the strong opposition that has been voiced by several elements of the economy in the United States toward that legislation.

Senator McConnell. The sugar program impacts other commodities also, does it not?

Mr. Bushnell. Mike, do you want to address that?

Mr. Shannon. In what way, Mr. Chairman?

Senator McConnell. Well, it has been suggested by staff that it also has an impact on the corn industry.

Mr. Shannon. Yes, it does.

Senator McConnell. What impact would the absence of a sugar program have on corn prices?

Mr. Shannon. The figure I hear commonly referred to by the corn growers is 25 cents, it would knock 25 cents a bushel out of the corn market.

Senator McConnell. All right, gentlemen, thank you very much. I appreciate your coming.

Mr. Bushnell. Thank you.

Senator McConnell. The next witnesses are James Graugnard—is that remotely accurate—and Mike Lewis.

Mr. Graugnard is president of the Louisiana Farm Bureau, representing the American Farm Bureau Federation, and Mr. Lewis is the Washington representative of the International Longshoremen's & Warehousemen's Union here in Washington.

Gentlemen, you understand we will include your complete statements for the record, if you would like, and then feel free to summarize it. That might be the best way to proceed.

STATEMENT OF JAMES GRAUGNARD, PRESIDENT, LOUISIANA FARM BUREAU FEDERATION, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. Graugnard. I am James Graugnard, president of the Louisiana Farm Bureau Federation. I have next to me a backup, a sugar producer, and he is also strictly for backup.

Senator McConnell. I did not hear you.

Mr. Graugnard. He is strictly for backup, and not for testimony. I have a little problem, in that I do not know what is the matter, but I do not have an accent, and the other folks have one, so you can imagine I find it difficult for some folks to understand me, but I am a Cajun, if you know what that is.

Senator McConnell. I can understand you. I was born in Alabama. That is not too far away.

Mr. Graugnard. A great State

The American Farm Bureau Federation is the Nation's largest general farm organization, with a membership exceeding 3 million member families in 48 States and Puerto Rico. I serve as president of the Louisiana Farm Bureau Federation and as a member of the board of directors of the American Farm Bureau Federation.

I appreciate the opportunity to appear before the Senate Committee on Agriculture, Nutrition, and Forestry regarding Farm Bureau's position on farm programs for sugar, wool, and honey, and our proposal for legislative changes under the 1985 farm bill.

I would like to address our positions regarding these commodities separately.

Sugar: The U.S. sugar industry competes in a world market that is highly regulated and supported by Government agricultural and trade policies. No other segment of agriculture throughout the world is more actively influenced by the intervention of Government. Since sugar is a product that is found in most food items and prevalent in diets of all nations, Government policies have a significant impact on prices, supply, producer income and governmental expenditures in nearly all countries of the world.

U.S. sugar producers are subject to volatile market conditions. The high degree of governmental control in nearly all countries has resulted in a world marketplace that does not operate freely according to the laws of supply and demand. Producers in this country cannot compete with subsidized sugar that is dumped in world markets by nations that have adopted sugar and trade policies designed according to objectives of maintaining domestic farm income, providing foreign exchange and preservation of internal social structures.

In the absence of Government sugar programs, producers of U.S. sugarcane and sugar beets would compete with foreign government trade and agricultural policies that promote dumping of sugar on world markets at less than their internal cost of production. Our industry would be severely injured under this type of ill-advised policy, not because of inefficiency or uncompetitiveness of our industry, but rather because of Government actions in other countries.

The American Farm Bureau Federation believes that the current sugar program has operated effectively, and should be continued. Delegates from all of our member States adopted a sugar policy at our 66th annual meeting in January that states:

> We support a program to protect the interests of domestic sugar producers and recommend that the 1985 farm bill should include a sugar title with provisions similar to the present program.

Our members are supportive of minimal Government involvement in marketing and economic matters, but have continued to support retention of the current sugar program in recognition of the interrelationship of domestic market performance and foreign governmental actions. Neither individual producers nor the industry as a whole are capable of competing with the treasuries of other governments.

The current sugar program uses commodity loans and import quotas to provide sugar producers a safety net against the variability in world sugar prices. Government loans made to sugar producers have not been forfeited to the Commodity Credit Corporation, and therefore, the program does not require Federal expenditures. Revenue is, in fact, generated by provisions of the sugar program that provide for imposition of import fees and duties on sugar imports. The program does not utilize any deficiency payments, acreage reduction programs, or Government stocks management policies.

We believe that commodity loans should be made to sugar producers at a rate the Secretary of Agriculture deems appropriate, but not less than 18 cents per pound, for the life of the farm bill. The quotas imposed under the provisions of section 22 of the Agricultural Adjustment Act of 1933 should be retained. These quotas prevent excessive imports which would flood our market, lower prices and cause the Government to incur costs associated with commodity loans forfeited to the Commodity Credit Corporation.

Critics of the sugar program contend that the program is costly to consumers. Many of those critics are sugar purchasers that seek to reduce input costs and hope that elimination of the sugar program would accomplish this.

Farm Bureau, therefore, recommends that the current sugar program should continue to serve the needs of our producers and consumers The loan rate should be set at not less than 18 cents per pound level, and import quotas should be used to restrict excessive supplies of imported sugar that would prove disastrous to our domestic industry.

Wool: The wool and mohair program is another example of farm policy that has operated well. The Wool Act should be extended in the 1985 farm bill. Farm Bureau policy states:

> Farm Bureau supports the continuation of a strong sheep, wool, and mohair industry in the United States, and recognizes the need for continued promotion. We recommend the continuation of the Wool Act.

The incentive payments made to wool producers have been effective in encouraging wool production. The objective of the Wool Act have been to contribute to economic welfare, efficient resource use, and an improved balance of trade. It has succeeded in meeting those objectives without market restrictions, artificially high consumer prices or excessive net Government costs. Tariff revenues collected on raw wool imports and wool textiles more than offset wool program expenditures.

We, therefore, believe that the current wool and mohair program should be extended in its present form.

Honey: The honey program has provided honey producers a loan and purchase program that sets a floor on domestic honey prices. Maintaining a viable apiary industry is important not only to beekeepers, but also to fruit and seed producers who rely on bees for pollination.

We, therefore, believe that a honey program is necessary to maintain the honey industry at a desirable level. While we do not have specific proposals developed for modifications to the current honey program, we are currently evaluating various proposals to amend the program, and determine which revisions, if any, might be necessary to make the program more efficient.

Mr. Chairman, I thank you for the opportunity to present American Farm Bureau Federation's position to the Senate Agriculture Committee today. Farm Bureau will work closely with the committee in developing a sound and fiscally responsible farm bill. I would be happy to respond to any questions.

Senator McConnell. Thank you.

Mr. Lewis.

STATEMENT OF MIKE LEWIS, WASHINGTON REPRESENTATIVE, INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION

Mr. LEWIS. My name is Mike Lewis, I am the Washington representative of the International Longshoremen's & Warehousemen's Union, ILWU. I am happy to have this opportunity to present the views of ILWU on the 1985 farm bill and the U.S. sugar program, and I will make my statement as brief as I can.

Senator MCCONNELL. Thank you.

Mr. LEWIS. ILWU represents approximately 6,500 agricultural workers in the Hawaiian cane sugar industry. In northern California, ILWU members also warehouse almost all of Hawaii's sugar. We therefore have a direct interest in the health of the domestic sugar industry, both as consumers and as workers whose livelihoods are very much at stake. It should also be emphasized that at least 19,500 other Hawaiian workers hold jobs that are dependent on sugar, and that sugar provides more than 100,000 jobs nationwide.

I should note, Mr. Chairman, for the record, that in addition the Seafarer's International Union, the Oil, Chemical & Atomic Workers' Union, the American Federation of Grain Millers, the Wine & Distillery Workers, and the National Farmers Union are all on record in favor of the sugar program, and urge that it be extended as a part of this year's farm bill.

The U.S. sugar industry is the most efficient in the world. But the recent glut of sugar on the world market has made it impossible for American producers to survive in the absence of minimal protection. This glut has resulted from subsidized overproduction by other countries—particularly the European Economic Community, which now supports its sugar growers at around 30 cents a pound, well above the cost of production. Since 1980, market prices have plummeted, and the so-called world price of sugar now stands at less than 4 cents a pound.

Subsidized overproduction abroad is outside our control, but Hawaiian workers have suffered severely from its impact. Even after the enactment of the sugar program in 1981, one major Hawaiian plantation has been permanently shut down, and others now periodically undergo temporary furloughs for weeks at a time. All of Hawaii's sugar workers are haunted by the specter of permanent layoff as you begin your deliberations on the 1985 farm bill.

It is a matter of record that the ILWU has been fully cooperative with the Hawaiian industry's constant efforts to increase productivity. It has been largely as a result of our voluntary sacrifice and commitment to production efficiency that Hawaiian cane operations are now the most sophisticated in the world.

This cooperation over the years has cost many jobs due to automation. In recognition of the industry's precarious financial state over the last few years, ILWU members have also agreed to accept no wage increases in 1983 and 1985. Additional contract concessions have been made in work flexibility, days of rest and medical and housing benefits.

If, despite our employers' and our own efforts, the domestic sugar industry were to collapse, Hawaii would experience no less than a statewide economic disaster. The jobs, income and revenue sugar now provides are irreplaceable, because there is no viable crop substitute to fill this gap. Unemployment would more than double statewide, and it would reach from 18 to 29 percent on the Neighbor Islands. State revenue would decline by more than 10 percent, and there would be a corresponding impact on public programs—precisely when newly laid-off workers' dependence on Government services would unavoidably increase. Thousands of workers whose skills are limited to agriculture would be left without even the prospect of new livelihoods.

It is from this perspective that we look at the administration's proposal for sugar in this year's farm bill. This proposal is so drastically deficient there is no need for us to spend time analyzing its details. It would reduce the Government's support level for sugar—which is already below the cost of production—to such an extent that U.S. growers could not possibly survive. Enactment of the administration's recommendations would effectively terminate the domestic industry and leave the American consumer permanently dependent on foreign supplies.

Even allowing for this administration's free-market orientation toward agriculture, it is difficult to comprehend the rationale for victimizing sugar in this way. As you know, the U.S. sugar program, unlike those of the EC and other countries, encourages no surpluses and provides no export subsidies to growers. It consists solely of nonrecourse loans that are repaid to the Government with interest. No forteitures have occurred to date since the program's inception.

As of next October, loan level increments will have increased by an average of only 1.4 percent since 1982—even though inflation has averaged about 4.5 percent a year. The quota on sugar imports that has been in place since 1982 costs the Government no money, and the duties and fees that are levied on sugar imports actually provide needed revenue. The budgetary pressure which is now being exerted by the Federal deficit would therefore not be alleviated in the slightest by demolishing the sugar program.

At the same time, the program permits the domestic industry to survive in lean years, and thereby serves the best interests of consumers. No one here needs to be reminded that since 1974, when the old Sugar Act was allowed to expire, domestic prices have not only declined in some years, but skyrocketed in others—to over 40 cents a pound, as recently as 1980.

The presence of the domestic industry has helped to cushion American consumers from these periodic shortages—and from the permanently higher sugar prices that consumers in many other countries now pay. It is worth noting that U.S. consumers also pay far less for sugar today than they did in 1980, when there was no program.

Contrary to the self-serving claims of industrial users who have an interest in acquiring sugar as cheaply as possible, terminating the sugar program would do nothing to lower food prices. This follows from the fact that only about 20 percent of our sugar is purchased directly by consumers, while the rest is purchased by confectionary, cereal, bakery, and other users. The prices for these user's products have been entirely independent of sugar. In fact, U.S. Department of Agriculture figures show an increase in sugar-using food prices since mid-1980—even while the price of sugar has gone down.

Vivid new evidence of where the real leverage is exerted on food prices is provided by the soft drink industry, which recently converted from sugar to corn sweetener. Soft drink was recently listed in Forbes as first among industries in long-term profitability, with a return on equity of 27.1 percent. Coke and Pepsi clearly could not have achieved this position if sugar or any other ingredient had been impinging on them pricewise. And what savings have been passed on to their consumers since last fall, when the transition to corn sweetener—which is at least 20 percent cheaper than sugar—was completed? It is obvious that consumers would benefit no more from the termination of the sugar program than they have on every occasion in the past when the cost of sweetener was reduced.

For all of these reasons, it is in the best interests of sugar workers, consumers, and the Nation at large that the domestic sugar industry survive and that the U.S. sugar program be maintained.

We note that committee Chairman Helms' legislative proposal for the farm bill, S. 616, recognizes this to a considerable extent by extending the sugar program at the projected loan level for the 1985 crop—18 cents a pound. However, it is our understanding that under this bill the interest incurred through loans under the program would be made recourse—payable independent of crop collateral and prevailing price levels. This would proportionately lower the effective support level of the program. In addition, the 18-cent support level offered in this bill on a fixed basis for the duration of 6 years would be gradually eroded by inflation—though even the increments provided in the current law for the last 3 years have failed to keep pace with rising costs of production since 1982. We therefore recommend that the bill be altered in these two respects.

Whatever legislative vehicles emerges from your committee, we urge to help ensure the survival of the domestic sugar industry by extending the sugar program at appropriate support levels in the 1985 farm bill.

Mr. Chairman, I will just add that based on some observations I heard during the hearing today, there seems to be no dispute here from any of the testimony I have heard, that on a national basis when the price of sugar has gone up in the past, the price of sugar-containing food also went up. But when the price of sugar has come down, those prices did not come down. These are the figures that I have seen. The graphs I have seen are unanimous, even the Department of Agriculture's charts.

It seems to us, if some segments of the sugar-using food community, as I heard testify earlier this morning, have legitimate problems in the way of the impact of foreign food product imports, the solutions lie in confronting those problems head on, rather than in victimizing sugar as an expedient for dealing with those problems.

I think ample testimony has already been submitted in regard to the impact of sugar on food prices, so I will not elaborate on that, except to point out that Forbes magazine in January of this year did their annual survey of American industry, and they list as No. 1 in long-term profitabity, the soft drink industry, with a 5-year average return on equity of 27.1 percent. It is hard to believe that sugar or any other cost component was impinging on the soft drink industry, given that statistic.

I also heard Ms. Haas make a point of using the $250,000-per-producer subsidy figure for 12,000 producers of sugar in the United States. Even assuming the subsidy figure had been accurate, I assume that 12,000 figure did not include the 6,500 members of my union in Hawaii who work in the fields and mills there. If it had, and if the figure of the growers had included the 100,000 or so workers who work full-time in the sugar industry, I am sure that the subsidy figure she cited would have been lower as well, proportionately.

I also heard it said earlier that the sugar program guarantees profits to the domestic sugar industry. The 500 or so workers who used to work at the Puna Plantation on the Big Island of Hawaii would be astonished to hear that the sugar program guaranteed a profit for their plantation, in view of the fact that it completed its total phaseout of production just last September.

I will stop there, Mr. Chairman.

Thank you.

[The following letter was subsequently received by the committee:]

INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION,
Washington, DC, May 4, 1985.

Hon. JESSE HELMS,
Chairman, Senate Committee on Agriculture, Washington, DC.

DEAR MR. CHAIRMAN: At the committee hearing on sugar earlier this week, four questions were submitted to me in writing by your staff immediately after my oral testimony.

These questions were: 1) How has the Hawaii sugar industry changed over the last four years? 2) How many Hawaiian sugar workers have lost their jobs over this period? 3) What kind of work do former sugar employees find? 4) If the loan levels were reduced to levels suggested by other witnesses, how would our members be affected?

In answer to question 1) the Hawaiian industry has contracted signficiantly in terms of acreage and employment. To save space, I will refer you for more detail to the statement submitted by the Hawaiian Sugar Planters' Association.

In answer to question 2), since 1980, the most recent peak in sugar employment, approximately 600 field and mill workers have been permanently laid off. In addition, at least 100 additional workers are already scheduled for layoff this year—regardless of the outcome of the 1985 farm bill.

These figures do not include furloughs lasting from two weeks to two months that have already affected all remaining sugar workers. Nor do they include lost jobs in related local support industries (e.g. fertilizer, metal fabrication).

Layoff figures also do not measure the lost overtime work that was once relatively plentiful. That is, even those workers who remain employed have had their work opportunity—and therefore their income—substantially reduced.

In answer to question 3), by far the largest concentration of laid-off workers over the last four years has been at the American Factors Puna plantation on the island of Hawaii. Over 400 field and mill workers lost their jobs there, and we know of only about 30 who have found other work. Most of these few are employed on the plantation mill's power plant, which now provides electricity to the local utilities by burning wood chips. We know of only five who found jobs on other plantations.

Apart from a few others who grow papayas on the side, the rest of the ex-Puna workers have found no other employment. Moreover, those who were the last to be laid off at the plantation's final shut-down last September are about to exhaust their 26 weeks of unemployment compensation and due to recent Congressional action will now not be eligible for Federal Supplemental Compensation. Employer-paid medical benefits, which were extended for layoffs for a set period of time by contractual agreement, are also about to expire for many workers.

In answer to question 4), a reduction of the sugar loan rate to 12 cents a pound or lower would decimate the Hawaii industry, the livelihoods of the approximately 6,500 ILWU members who still work in it, and the state economy. To avoid repetition, I again refer you for more detail to the written statements submitted by Senators Inouye and Matsunaga, HSPA, and ourselves.

Thank you for your strong interest in this issue.

Sincerely,

MIKE LEWIS,
Washington Representative.

Senator McCONNELL. The next panel is Ralph Harding, adviser and consultant to the Philippine Sugar Commission here in Washington; Felipe Vicini, who is a member of the International Sugar Policy Coordinating Commission of the Dominican Republic; and Eduardo Latorre, who is the executive secretary of the Group of Latin American and Caribbean Sugar Exporting Companies, from Mexico City.

Mr. HARDING.

STATEMENT OF RALPH R. HARDING, ADVISER AND CONSULTANT, GOVERNMENT AFFAIRS, PHILIPPINE SUGAR COMMISSION

Mr. HARDING. Mr. Chairman, I thank you and the members of your committee for the opportunity to appear here today and make a few observations and recommendations about the sugar program.[1]

I have been involved in sugar since my boyhood on a family farm in Idaho. We produced sugar beets, which we sold to the Utah-Idaho Sugar Co. For several summers I thinned, hoed, irrigated, cultivated, topped, and loaded sugar beets. In 1949, as a young man, I worked a campaign in the sugar room, as a bagger at the Utah-Idaho Sugar Beet Factory in Garland, UT.

Later, as a Member of the House of Representatives from Idaho in the 87th and 88th Congress, I served on the Agriculture Committee. I was a sponsor and strong supporter of the Sugar Act. I believed then, and still believe, that we need a healthy, prosperous domestic sugar industry, and that the sugar beet farmer in Idaho and Texas, and the sugarcane farmer in Hawaii, Louisiana, and Florida must prosper and receive a fair price for the sugar they produce. This is in our national interest. We are still unable to produce enough sugar to meet our domestic requirements. This has been true throughout history. We must import sugar to go with the sugar we produce in filling the requirements of industry and household users in the United States.

This necessarily requires us to decide which countries to buy sugar from, and what quantities should be allocated to each country.

As a representative of the Philippine Sugar Commission, I strongly suggest that the allocation formula adopted in 1982 was most unfair to the Philippine sugar industry. Historically they had supplied in excess of 25 percent of our sugar imports, and when quotas were reestablished in 1982, their quota was nearly cut in half.

Following is a chart which shows the average annual sugar quotas beginning with the Kennedy administration. One can understand the complaints of the Philippine sugar industry about their greatly reduced quota percentage.

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[1] See p. 547 for the prepared statement of Mr. Harding.

CHART 1.—AVERAGE ANNUAL SUGAR IMPORT QUOTA ALLOCATIONS BY ADMINISTRATIONS, 1961–84

Country	Kennedy administration, 1961–63		Johnson administration, 1964–68		Nixon administration, 1969–73		Ford administration, 1974 [1]		Reagan administration, 1982–84	
	Tons	Percent	Tons	Percent	Tons	Percent	Tons	Percent	Tons	Percent
Philippines	1,269	28.3	1,166	27.6	1,380	26.1	1,472	25.6	400	13.5
Dominican Republic	595	13.3	559	13.2	729	13.8	813	14.2	522	17.6
Brazil	389	9.7	412	9.8	657	12.4	783	13.6	430	14.5
Australia	154	3.4	199	4.7	228	4.3	236	4.1	246	8.3
Argentina	80	1.8	57	1.3	73	1.4	110	1.9	128	4.3
Total average annual quota tons	4,483		4,224		5,294		5,744		2,967	

[1] From 1975 to 1981 including all of the Carter administration, there were no sugar quotas.

Under the Kennedy administration they supplied 28 percent of our imports. Under the Johnson administration 27 percent; under the Nixon administration, 26 percent; under the Ford administration, 25 percent; and then under this administration, unfortunately, because of the allocation formula used, only 13 percent

No other single incident created as much animosity among the Philippine population towards the United States as the dislodgement of the Philippines as the leading foreign sugar supplier to the United States when sugar quotas were reinstituted in 1982.

When President Marcos and his cabinet came to the United States in September 1982, they distributed a position paper, "A U.S. Sugar Quota for the Philippines Commensurate With Its Record as a Historical Supplier," to senior American officials, including the Secretaries of State and Agriculture.

The paper, dated September 13, 1982, thoroughly documents the history of the Philippines in supplying the U.S. market and pointed out that from 1930 through 1981, the Philippines had supplied 25 percent of the U.S. sugar imports, but under the new quota, was allotted only 13.5 percent.

When Ambassador Roberto S. Benedicto, chairman of the Philippine Sugar Commission, addressed the U.S. Sugar Users Colloquium in Palm Springs, CA, on February 20, 1985, he stated:

> All in this room are concerned with sugar, but few of you can realize how much it means to my country. Half of the Philippine population of 53 million depends on agriculture for their livelihood, in contrast to about three percent in the United States. But we have only about nine million hectares of cultivable land, which means that we have to make the most of our land in terms of productivity and employment.

Then he goes on to emphasize it is estimated that about 5 million people, in 20 provinces, are dependent, directly or indirectly, on the sugar industry:

> I must not weary you with a lot of figures, but it is necessary to point out that until the last few years, sugar accounted for 15 to 20 percent of our foreign exchange earnings from traditional exports. The earnings from sugar paid not only for imports of foods and consumer goods, but made possible our industrial, technological and financial development. Earnings from sugar exports supported schools, colleges and many of our construction and industrial enterprises. Our current foreign exchange difficulties are due to no small extent on the fall in sugar earnings from about 500 million U.S. dollars to less than 300 million in 1983.
>
> Yet even these facts do not reveal the political, social, yes even cultural and psychological, importance of sugar in my country. Sugar is at the heart of our national

political life and culture to an extent that people of economically and culturally diversified, pluralistic societies like that of the U.S. simply cannot imagine.

I wonder how many here realize how long and deep have been the sugar relations between our countries. Our records show that in 1796, 20 years after the birth of your Republic, the good ship Astrea from Salem, Massachusetts, carried back from the Philippines a cargo of sugar, indigo and pepper—on which, by the way, a duty of $24,000 was collected. The U.S. became the primary market for our sugar long before the Philippines became a part of the United States. During the decade, 1880-1989, exports averaged 199,000 tons, of which almost 60 percent went to the U.S.

This will all be included in the record, but then the Ambassador points out, when the U.S. Sugar Act was allowed to expire in 1974, the Philippines, with its sugar industry geared entirely to the American market, was suddenly cut adrift to fend for itself.

The industry had just completed a large and costly expansion program, solely to insure fulfillment of U.S. quota commitments. The abrupt termination of the Sugar Act, without notice, and without any period of adjustment, was particularly traumatic to the Philippines.

And the Ambassador goes on to conclude, to say, it pains me deeply to say this, since my university days in Washington, DC, I have considered the U.S. as almost my second home. But I would be less than truthful if I did not say that it would be hard to find a person in the Philippines who was not embittered by what is universally regarded as a grave injustice.

I want to repeat that statement. It would be hard to find a person in the Philippines who is not embittered at what is universally regarded as a grave injustice.

Sugar is to the Philippines what potatoes are to my home State of Idaho. When Idaho potato farmers have a good year, the economic climate is good. They purchase consumer goods, pay off bank loans, and economic and social prosperity extend throughout the State.

Only a minority of Idahoans are potato farmers, who depend directly on income from potato sales, but whenever anything happens to the potato industry, everyone in Idaho knows about it. And that is the way it is with sugar in the Philippines.

I can understand the Ambassador's statement that every person in the Philippines was embittered when we ignored the history of the Philippines on supplying sugar to the United States, and then later were our loyal allies, not only in World War II, but in Korea, Vietnam, and we have a mutual defense pact with them today.

Yet when the quotas came back in, theirs was cut. I understand that people at the Department of Agriculture, or somewhere, said we have to take this simplistic approach, and apply it over the board.

Well, what does this formula do? It caused us to buy sugar from Canada.

Now, keep in mind that Canada produces about 130,000 tons of sugar annually. They need a million tons, so where do they get the rest, they go buy it from someone else. They buy about 250,000 tons a year from Cuba. So, in effect, Canada buys sugar from Cuba at the world market, and exports it to the United States at our support price. What the hell is fair about that?

I can understand the Filipinos being mad. I think we have got a chance here in the Congress to really correct this. The sugar section of this farm bill presents the Congress with an opportunity to correct the injustices that have been inflicted on the Philippine sugar industry.

I propose that the sugar section of this bill provide that all sugar quotas be given to friendly, developing countries, who are net exporters of sugar, and further, because of the long historical record of the Philippines as a supplier of sugar, and as an ally, that no country be given preferential treatment over the Philippines in supplying the United States with imported sugar. This would mean that the Philippines' quota would be at least equal to the largest quota of any country supplying sugar to the United States, and that any duties or fees imposed upon Philippine sugar imports be not more than the duties or fees for sugar paid by that country that pays the least duties or fees on sugar sales to the United States.

In conclusion, the Philippines would have a most-favored-nation status pertaining to sugar sales to the United States, and they have earned it. This would be a giant step forward in bettering Philippine-United States relations at a crucial time. It would let a loyal ally know that their record is acknowledged and appreciated, and that the Philippines and the United States can count on the same spirit of friendship and cooperation that has existed during World War II, the Korean war, and the Vietnam war.

The Philippines are our host at Subic Bay Naval Base and Clark Air Force Base. We are signatories to a mutual defense pact. The least we can do is treat them equally with any other supplier of sugar.

I thank you for the opportunity to appear here today and make that statement, Mr. Chairman.

Senator McConnell. Thank you, Congressman.

Mr. Vicini.

STATEMENT OF FELIPE J. VICINI, MEMBER, INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC

Mr. Vicini. Thank you, Mr. Senator.

My name is Felipe Vicini. I am a private sector member of the international sugar policy coordinating commission of the Dominican Republic, a governmental agency comprised of both public and private sector members. I appreciate this opportunity to testify on behalf of the commission concerning the sugar provisions in the farm legislation under consideration by the committee.

Under current law, the U.S. sugarcane and sugar beet industry is supported by a Nonrecourse Loan Program. To keep domestic sugar prices above the level at which there would be defaults on loans, it has been necessary to progressively restrict imports. Presumably the continuation of the present price support program would lead to a further loss of sugar sales to the United States for the Dominican Republic and other foreign suppliers.

The administration's proposal would lower sugar price supports in stages, starting in fiscal 1986. Although this may eventually lead to a greater volume of exports to the United States, it could also result in an additional loss of income for the Dominican Republic, given the present structure of the world free market.

Apparently the Dominican Republic is faced with the dilemma of reduced export earnings regardless of which alternative is chosen by Congress. However, this is not caused by Congress' support of the U.S. sugarcane and sugar beet industry, which is the intended beneficiary of the program. The Dominican Republic's interests do not conflict with those of U.S. sugar producers. Rather, as will be explained further, our problems are due to the displacement of refined sugar syrups from the industrial users' market in the United States and to excessive supplies in the free market. These problems threaten the Dominican sugar industry with failure. A solution is critical to my country since sugar has been and continues to be the keystone of our economy.

The Dominican Republic is a small tropical nation, about the size of Vermont and New Hampshire combined, with a population of 6 million. Contrary to popular impression, climate, rather than land, is our primary agricultural resource. We must use generally poor soils in ways that productively employ our population and generate badly needed foreign exchange.

Sugarcane is well suited for this purpose. It is cultivated mostly in the southeastern coastal plain, in poor soils, which are not irrigated. The only feasible alternative use for this land is as pasture for cattle grazing. However, cattle production would make a much lower contribution to the economy in terms of income and employment.

The sugar industry is the nation's largest employer. One out of every ten Dominicans derives his daily livelihood from the sugar industry, which includes more than 8,000 independent cane farmers.

Sugar industry exports provide upward of 35 percent of the nation's foreign exchange receipts, which are sorely needed to pay for the many imported products we require and which we cannot viably produce ourselves. These include manufactured items largely imported from the United States, and virtually 100 percent of our energy requirements.

It is the policy of the Dominican Government to encourage the development of new industries in order to diversify our external trade sector. Although there has been some progress in that respect in recent years, our options in this matter are severely limited by our lack of capital and will continue to be so for many years. Clearly, then, the failure of the Dominican sugar industry during this period would not only greatly impoverish the country, but would also thwart any prospects for further diversification. As has been already pointed out, any substitute activity in the use of the resources presently employed by the sugar industry would generally entail a loss of income and employment. Furthermore, the country would lose the major source of foreign exchange needed to finance the capital goods of new industries.

There are two statistics that bring out the importance of sugar to the Dominican Republic. They are very simple ones. The first is that 1 out of every 10 Dominicans derives his daily livelihood from the sugar industry, and the other is that the sugar industry exports provide upward of 35 percent of the nation's foreign exchange receipts.

The Dominican Government has adopted policies to reduce this percentage of dependence on sugar, to encourage the development of new industries, in order to diversify our external trade sector. There has been some progress, but we are still highly dependent on sugar, and will be highly dependent on sugar for many, many years.

Furthermore, the possibilities of any substitute activity for the sugar industry in the Dominican Republic are very limited. In the major areas in which sugar cane is grown there is no other feasible alternative, that does not imply a very drastic reduction in income and in employment, and you can imagine what this means to a country that has very serious problems in balance of payments, and has already a very high level of unemployment.

Up to now the Dominican Republic has maintained a fairly stable sugar production, 80 percent of which, or about 1 million tons, is available for export. We are the principal foreign supplier of sugar to the United States. Yearly shipments averaged approximately 805,000 tons between 1975 and 1981. Presently, we are limited by quota to 447,040 tons for the 14 months between October 1, 1984, and November 30, 1985. This represents a 33 percent drop, on an annual basis, from last year's quota—a loss of income of about $57 million, equivalent to more than 6½ percent of the nation's total export earnings.

Sugar imports in general are expected to supply only about 15 percent of total U.S. sweetener demand for fiscal 1985, compared to approximately 40 percent in the early 1970's, while domestic market production has remained virtually the same.

The loss of market for foreign suppliers has been due to the advent and growth of high fructose corn syrups. Because HFCS can be purchased at substantial discounts from sugar price support levels, soft drink manufacturers and other industrial users have substituted HFCS for refined sugar syrups.

However, the fees and quotas that were adopted to protect the loan program have prevented imports from competing with HFCS for the industrial syrups market. It would seem, therefore, that the HFCS industry is the principal, if unintended, beneficiary of the sugar price support program. If HFCS continues to enjoy this status, the Dominican Republic and other foreign suppliers would be threatened with the continued erosion of their position in the U.S. market.

While U.S. demand for imports has decreased by about 2.5 million short tons since 1976, the European Economic Community, formerly a net importer of some 1.7 million tons of sugar, has become the largest exporter to the world free market, accounting for 30 percent of its volume. Recent EEC surpluses have been as large as 7.3 million tons. This dramatic shift is due to the EEC's common agricultural policy, which not only protects the internal market, but also guarantees the support price on 3.8 million tons of exports. Under present conditions, this amounts to a direct export subsidy of about $1 billion.

The impact of the EEC's dumping can be fully appreciated when one considers the residual nature of the free market which is the

17 percent of global demand that is not supplied under protected or preferential marketing arrangements. This explains how a large overhang in stocks, currently estimated at about 19 million tons, can develop notwithstanding free market prices below 4 cents a pound, which is about one-third of the cost of the most efficient producers.

Under these conditions, it is difficult to envision any significant and lasting improvement in free market prices solely on the basis of the eventual increase in U.S. imports that might result from a reduction in domestic price supports. Without such an improvement, virtually all of the Dominican Republic's exports would have to go to the United States simply to compensate for the lower U.S. price.

From what I have said it should be evident that the Dominican sugar industry cannot survive with over half of its exports facing the unfair competition of the EEC and others in the free market. Achieving a higher volume of exports to the United States at the cost of a much lower U.S. price, however, would not provide a remedy for this grave situation.

What we need urgently is not to be excluded from the industrial syrups market so that we can regain our traditional level of exports to the United States.

I thank you.

Senator McConnell. Thank you.

Mr. Latorre.

STATEMENT OF DR. EDUARDO LATORRE, EXECUTIVE SECRETARY, THE GROUP OF LATIN-AMERICAN AND CARIBBEAN SUGAR EXPORTING COUNTRIES [GEPLACEA]

Mr. Latorre. Mr. Chairman, Senator Melcher, what brings us here today is to contribute some facts which we believe will help to provide a more comprehensive view on the very important matter of sugar, by focusing on this commodity more in the light of its implications for Latin America rather than in its U.S. aspects, which have always been, and rightfully so, the primary concern for American legislators and policymakers.

I am proud to be here as executive secretary of the Group of Latin American and Caribbean Sugar Exporting Countries, which is a 10-year-old international organization, composed of 21 nations, and headquartered in Mexico City.

On behalf of Jose A. Cerro, the assistant secretary for market and statistics, here with me, and myself, we thank you for the opportunity you give us to express our views.

As you undoubtedly know, the sugar industry of Latin America is a very important source of employment, food, foreign exchange and energy. There are 700 sugar mills in the area; a yearly harvest of 390 million short tons of sugarcane, which results in the production of 31 million short tons of sugar and other products.

The industry directly employs more than 2.5 million people, and sugar exports are the third source of foreign exchange for the region, preceded only by petroleum and coffee.

The average yearly export tonnage of sugar is about 14 million short tons, traditionally the United States being the main market for most of the countries of the region. About 6.6 million short tons, 45 percent, are sold at the international residual market, which, as you well know, it is the market for all of the sugar that cannot find a preferential market of some kind, being the actual price of a pound of raw sugar less than 4 cents of an American dollar, a price which is at least half of the cost of production of the most efficient producer in the world.

During the 1970's, the region's yearly average foreign exchange earnings from sugar sales to both the United States and the international market was U.S. $3 billion, falling to less than a U.S. $1 billion by 1984. During the same last decade, the United States imported more than 5 million short tons a year, of which 3.2 million short tons was from the GEPLACEA nations, which is double the 1.6 million short tons of this 14-month quota year.

The foreign exchange earnings from the U.S. market have fallen dramatically from U.S. $1.37 billion in 1981 to about U.S. $690 million in 1984, and to less than U.S. $600 million in 1985, should things continue with the trend they have.

The economic, social and political effects of the reduction of the U.S. market, combined with a depressed international market, is cause for very serious concern. In an area in the midst of the most severe economic crisis of this century, to continue to reduce the main market for one of its more important products, does not seem to be a very good idea, for it is only adding more wood to the fire.

Why is all this happening? The three main reasons are: first of all, the joining of political decisions with financial capacity in the European Economic Community in order to produce beet sugar at almost twice the cost of the Latin American cane sugar producers, not only for its own internal consumption, but to export over 5.5 million short tons a year, with a most depressive effect on world prices. This is done at the expense of its own consumers, and without concern for the exporting countries of the rest of the world, practically all of which are underdeveloped nations.

The second reason has been the present legislation in the United States, which, at the expense of the American consumer, has set up such a high price for sugar that it is driving the product out of the market by providing an umbrella for an also subsidized technological substitute, the high fructose corn syrup, which could not be competitive in the open market. The present legislation is such that the market for imported sugar is being closed together with the American suqar refineries that process it.

Since the beginning of 1985, the fee on raw sugar imports, based on an administration decision of 1977, had risen gradually from zero to 2.7185 cents per pound, to be effective on April 1. The estimated annual loss for the Latin American countries at that fee level was close to $93 million, but only part of it was in effect for the 3 months of this year. Fortunately, the administration decided to suspend the fee on raw sugar. This measure is very welcomed by us, considering that it was an economic nonsense to have the quotas and the fee at the same time, and because it was a matter of justice.

The third main reason for the dramatic fall of Latin American foreign exchange earnings from sugar has been the absence of an international agreement which could prevent the devastating effects of the sugar dumping by the EEC. As most of you know, the failure to reach an agreement at the Geneva meetings of 1983 and 1984, was basically due to the incapacity of the major exporters to agree on the sacrifices to be made by withholding sugar from the market. As it turned out, it has been a terrible loss for everyone.

The effects on the United States will also be harmful, should this situation continue to deteriorate. First of all, American exports to the GEPLACEA nations will fall from the current U.S. $35 billion, since there will be less money with which to buy. Second, the declining foreign exchange, there will be greater difficulties than there are today to pay the principal and/or the interest on the U.S. $350 billion foreign debt, mostly owed to American banks.

Third, there will be greater demand on U.S. foreign aid, and some aid policies, such as the Caribbean Basin initiative, will be rendered useless for what is given with one hand is being taken out with the other.

Finally, there will be a great deal of social upheaval and political instability in addition to economic dislocation, all of which is contrary to the proclaimed policies by the U.S. Government and the best wishes of the American people.

We all have, North, South, Central America, and the Caribbean, a stake in preventing this situation from getting worse, and if possible, reversing it to one that is healthy and mutually beneficial. What can be done?

In the long run, the best possible thing is to have a sugar legislation that is oriented toward freer trade, benefitting the U.S. consumers by having sweeteners provided from the cheapest source, and benefitting the Latin American exporters by opening up the U.S. market to those efficient producers, like our own, and by doing this raising the world price of sugar as some of it moves from the international market to the U.S. market. We favor the type of legislation that does not discriminate against sugar in favor of subsidized technological substitutes, such as the HFCS.

We hope that it can be understood that the decline of the U.S. sugar market that has occurred in the last 3 years is a contradiction to the stated purposes of the U.S. foreign policy toward Latin America, particularly harmful to those heavily sugar export dependent small nations of the Caribbean Basin, like the Dominican Republic and Guyana, for which it is really a major disaster. If this has occurred by falling into it, rather than by design, a stop should be made, and if this is correct, the wrongs can be redressed by allowing for more sugar to enter the United States.

In addition, we need your cooperation in having an international agreement on sugar, which could be effective in guaranteeing a reasonable price for the producer and a fair price for the consumer. We believe that present U.S. policy is somewhat neutral to an international sugar agreement, neither actively endorses it, nor does it oppose one, but Latin American losses in the international sugar market will also be costly to the United States, for there will be less foreign exchange with which to buy U.S. products, ranging from the sophisticated technical equipment, to such commodities as wheat, corn, and vegetable oil.

The unregulated market has only benefitted the privileged European beet industry, and marked everyone else, since each nation has a domestic fixed price for sugar.

It does not seem reasonable that it is the industrialized developed nations of the North Atlantic, which possess the financial and technological capacity, the ones that are driving the sugar industry of the underdeveloped nations of Latin America to ruin.

If we cannot produce basic labor-intensive commodities to sell in the international market, in the foreseeable future, we will be left with practically nothing to sell. The consequences of a situation such as this are undesirable for all.

Thank you very much.

Senator McConnell. Thank you.

Senator Melcher, do you have any questions?

Senator Melcher. I would ask Mr. Latorre, do all these countries that are listed in your table 1 sell in a pool?

Mr. Latorre. No. Each country sells on its own. It is just the statistics of sales.

Senator Melcher. How does your group operate then? What does the organization do for the individual country growers?

Mr. Latorre. It really is international meetings, to provide member countries with alternatives, and to foster joint action in the special situations faced by these nations, like coming over here today. Basically, that is what it is. We exchange information, technological information on the industrial efficiency, on byproduct production, and also dealing with markets, major markets, such as the United States, and in trying to get legislation in the International Sugar Agreement.

Senator Melcher. Thank you.

Ralph, you are representing the Philippine Sugar Commission. Is that part of the government?

Mr. Harding. It is an agency of the government, yes.

Senator Melcher. Does the commission process raw sugar, as an importer into the Philippines?

Mr. Harding. Importing raw sugar into the Philippines? The Philippines are very much a big exporter of sugar, Senator Melcher, and I want to, before I answer your question, thank you for your earlier questions in this hearing concerning the Philippines, and your interest in the Philippines.

At one time, a year or two ago, the Philippines had to temporarily import sugar from Thailand, because of a drought and a temporary shortage, but the Philippines has always been a major exporter of sugar.

Senator Melcher. My question really was, does the Commission, as an entity, sell sugar from other countries, not importing the finished sugar? Does it do it as a part of its operations?

Mr. Harding. No. As I understand it, the Commission was formed by the Philippine Government, about 8 years ago, after a traumatic experience in low sugar prices, to assist in marketing, allowing the Philippine sugar industry to sell as one entity, and to bring in technological research and advancements, and the latest equipment and methods in the sugar industry, so that they can be introduced into the Philippines.

Senator **Melcher**. More specifically, then, does Ambassador Benedicto—he was the former Ambassador to Japan, is that correct?

Mr. **Harding**. That is correct.

Senator **Melcher**. Does Benedicto, who is the chairman of the Philippine Sugar Commission, own facilities that refine raw sugar from some other countries?

Mr. **Harding**. He personally owns sugar plantations and sugar mills, and I believe most of the members of the Commission do. As to refining sugar from other countries, I could not honestly say, but I do not believe that there would be a need to, simply because, except for the drought and during the emergency in which sugar was imported into the Philippines, overall the Philippines are an exporter of sugar.

Senator **Melcher**. So whatever is refined there, by any of the individuals, Mr. Benedicto, or others in the Philippines, would be ordinarily Philippine sugar?

Mr. **Harding**. Yes.

Senator **Melcher**. And only during drought years would it be necessary to import raw sugar.

Mr. **Harding**. Right.

Senator **McConnell**. Thank you, gentlemen.

The next panel is John Ambrose, who is executive secretary for the North Carolina State Beekeepers Association, and secretary treasurer of the Southern States Beekeepers Federation, Raleigh, NC; and Frank A. Robinson, secretary-treasurer of the American Beekeeping Federation, Inc., from Gainesville, FL.

Gentlemen, if you could submit your full statements for the record, and summarize them, we would appreciate it.

Mr. Ambrose, we will take you first.

STATEMENT OF JOHN T. AMBROSE, EXECUTIVE SECRETARY, NORTH CAROLINA STATE BEEKEEPERS ASSOCIATION AND SECRETARY-TREASURER, SOUTHERN STATES BEEKEEPERS FEDERATION, RALEIGH, NC

Mr. **Ambrose**. Thank you, Senator.

I am John Ambrose. I am an entomologist, and I am here to talk about the Honey Bee Program and how it affects primarily North Carolina and the States in the Southern area of the United States. I also represent the North Carolina State Beekeepers Association, which is the largest beekeeping State association in the country, and the Southern States Beekeepers Federation, which is the oldest continuously active multi-State organization.

It is probably fitting we should follow the sugar industry since we do have some similarities. We are both sweets and we both have Government programs which some people would like to see eliminated, but the similarities stop there.

Whereas the sugar industry provides well over half the daily U.S. fructose intake for the average person, we provide only a pound a year. We are a very small industry.

Total honey production is $100 million, and I wonder how we got a Honey Support Program in the first place. The reason is not because of the honey production but the pollination by honey bees; $19 billion worth of food crops in this country require pollination by bees, and it is said that Americans are so dependent on bee pollination that one-third of the average person's diet comes from those products. So that is why we are important, not because of the honey production but because of the pollination.

Without the honey production, most beekeepers could not stay in business and we would see a drastic decline in the number of bees available for pollination.

If the Honey Support Program is severely reduced or eliminated, we will see a decline in beekeeping and a reduction in beekeeping for pollination. The Department of Agriculture says that elimination of the program would not have a serious effect because only a small portion of the beekeeping industry is really involved in the commercial end of the business. Something like 1,600 beekeepers control over half of the hives of bees in the country. If the Honey Support Program were eliminated, you would still have other people keeping the honey bees such as hobbyists and sideliners, and the USDA says there would not be that much effect on the industry. That is much too simplistic of an approach. By eliminating half the industry, the cost to the remaining half would be exorbitant. Equipment, supplies, bees themselves, replacement bees, starter bees, the cost of all those things would have to increase because half the market would suddenly disappear, and the people who supplied those things would have to increase their costs to stay in business.

Perhaps one of the questions to really look at is how did we get in a situation where the Honey Support Program became a cost factor? Up to 1980, it was a no cost program. Beginning in 1980 and up to the present time, more and more money has gone into loan supporting programs and not been reclaimed by beekeepers until we reached a state in 1983 where 110 to 115 million pounds was actually forfeited by beekeepers, and we had the $190 million in loss to the taxpayers.

How did we get in that situation? There are really two reasons you have to consider. One is the loan support program is based not on what people call the marketplace but on parity. We were talking about USDA figures before and how the USDA can seem to put out statistics that do not seem to jive with other statistics they produce. The USDA calculated parity for the beekeeping industry up to the present time. Yet, in 1981, they stopped collecting statistics on the beekeeping industry. But they still published data without those statistics. So you can see a possible conflict there.

Second, since 1980, we have seen a dramatic increase in the import of foreign honey, so that today, or at least in 1983, we were importing 110 to 120 million pounds of honey, and it does not take a detailed analysis to see that if you substitute the foreign honey for the honey under parity, they balance.

The foreign honey can come into the country in the 40 cent range. Honey can go into the Price Support Program at approximately 50 and 60 cents, so you can see where the discrepancy is.

The beekeeping industry in this country has no protection in the forms of quotas and tariff protection is only a minimal 1 penny a pound.

The loss of the Honey Support Program would undoubtedly drive many of the commercial beekeepers out of business who have based their operations around honey production.

One last alternative the Department of Agriculture has suggested is because pollination is so important, why cannot these people change their approach to pollination work and charge a fee for that. And, in fact, some beekeepers do do that now. But let me give you an example of the difficulty of doing this. In North Carolina, you have a small commercial beekeeping industry, and cucumbers are a $40 million crop and most of the growers use bees for pollination. The average rental fee is $25 a hive. That is equal to one-eighth in an average year of their gross profit. If a commercial beekeeper were to lose the Honey Support Program and could not sell his honey on the open market, he would have to compensate himself with at least $50 additional income per hive per year, and I doubt that he could derive that much from increased pollination fees either in new contracts or increases in rental fees to make up the difference. I find it very difficult to believe a cucumber grower who is paying $25 would be willing to pay $75, at least without a sizable pass-on to the customer and an increase in food prices.

The alternative just is not realistic at all. Instead, we would like to make the following suggestions:

One, that the Honey Support Program be maintained at least for the present time and that the entire concept of parity be reexamined and perhaps be replaced with another guaranteed loan program which did not exceed or would be equal to the market price of honey; that an investigation be instituted by the International Trade Commission on the effect of the honey imports on the domestic beekeeping industry. This was done once before and it was found to have an impact on the industry. We would like to see another investigation, and then consider the possibility of quotas or tariffs based on that.

We would suggest that we enforce the current regulations on country-of-country origin labeling. The country-of-country labeling regulations went into effect by customs last year, but still it is very difficult to go into the typical grocery store, look at the label and tell where it was produced, in spite of the fact that half the honey being sold in this country does come from overseas.

We would like to see the USDA reestablish its statistical reporting service so that when it does publish statistics and data on beekeeping there is some basis in fact.

Last, to provide at least transitional support to the industry in the form of the honey loan program while the industry itself attempts to aid itself under the honey promotion research under the Consumer Information Act which was passed and which the industry is trying to phase in to, in fact, promote sales of honey on its own.

Thank you very much.

Mr. NIRENBERG [presiding]. Thank you, Mr. Ambrose.

My name is Darryl Nirenberg. I am a professional staff member and I will sit in for Senator McConnell who had to leave, and I will chair until one of the Senators arrives.

Of course, we will be providing you with questions, and the record will remain open for the Senators to provide their comments and ask questions.

Mr. Robinson.

STATEMENT OF FRANK A. ROBINSON, SECRETARY-TREASURER, AMERICAN BEEKEEPING FEDERATION, INC., GAINESVILLE, FL

Mr. ROBINSON. Thank you, Mr. Nirenberg.

I have submitted a statement, and I would like to briefly emphasize one or two points that are in the statement and that Mr. Ambrose has referred to earlier.

The important point about bees, the reason they exist really, is of course, their pollination value. In this country we produce some $19 million of crops annually that are dependent on insect pollinators and primarily the honey bee. I think it is most important to realize that these crops primarily are fruit, nut and vegetable crops, and are not crops that are contributing to the problem with commodity surpluses that we are dealing with today.

In addition to the cash value of these crops, of course, producing them also creates a considerable number of jobs and income for other people. I would like to emphasize too that the present price support program has not led to any increased honey production in this country. Neither has it stimulated anybody joining the ranks of commercial beekeeping who were not already in the business. In fact, both the number of colonies and the honey production in the country have declined over the last few years and very likely will continue to do so.

I would like to comment too that the industry is in the process of moving toward the self-help, no-cost-to-the Government program by which we hope to be able to increase consumption of honey in this country and, hopefully, if it is successful, we will need not only our own production, but also the honey that is being imported. We will soon be requesting the Secretary to schedule public hearings on the program and hopefully a referendum in November, and the program will get underway in 1986. While we are confident this program will be effective, it will take time and the commercial beekeepers will need support in the interim if they are to survive.

To eliminate the present honey program as the administration is suggesting, or even to substitute a market-oriented program at this time, I would predict, would quickly lead to the bankruptcy of the majority of our commercial beekeepers. If you disregard the U.S. support price, the market price of honey at this time is somewhere between 36 and 40 cents per pound. At these prices, the commercial beekeeper would be faced with paying 1985 production costs with 1970 income levels, and few could survive at that level.

There have been some statements made that the present price support program has led to increased or higher consumer prices. We would challenge this statement and suggest that one need only look at the retail prices of honey in the stores, and although much cheaper imported honey makes up the majority of what one finds in the stores, there has been no decrease in retail prices.

We are requesting that the present Honey Price Support Program be continued, at least until the self-help industry effort can take effect. And, we would suggest to the Congress that one obvious solution to this oversupply problem would be legislative action to limit honey imports. These imports in a 4-year period have jumped from around 40 million pounds to 130 million pounds in 1984.

Increased tariffs or quotas would end the Government acquisitions of honey, restore the U.S. beekeepers' competitive position, and they should not result in any increased consumer cost.

We thank you for the opportunity of appearing here today.

Mr. NIRENBERG. Thank you, and thank you for the testimony.

I do have some questions for you gentlemen.

No. 1, is it safe to say that the honey price support program leads to a lower cost for pollination?

Mr. AMBROSE. I think that I would have to answer the question in two different ways. One is the price support program ensures the survival of an industry as it is structured, and most of the pollination that is done is on a free basis. These beekeepers are simply in a location making honey, and in the process they pollinate crops nearby. There is a lot of free pollination.

No. 2, because the beekeeper cannot count on a reasonable price for his honey, he cannot keep his pollination prices at a reasonable level. A lot of beekeepers who do pollination services do not do them on a cash-income basis because they are producing honey. They do not have to rely entirely on pollination services, so it does keep the costs down in that aspect also.

Mr. ROBINSON. I would agree with most of the comments. The majority of the pollination of commercial crops except in the State of California is probably provided as incidental to producing honey, and I do not know that there is really any direct relationship between the price support level and the pollination price.

Mr. NIRENBERG. Well, what would be the cost? Could you estimate it? I know it is a tough estimate, but what would be the cost to grow different commodities if the honey price support program were to be terminated or if the loan levels were significantly lowered?

Mr. ROBINSON. I think in sunflowers, for example, I doubt you would have commercial beekeepers operating in the sunflower producing areas, and I doubt that the growers of sunflowers could afford to pay what it would cost to have beekeepers move all the way into those areas just for pollination.

Mr. AMBROSE. In North Carolina, to use cucumbers as an example, the cost to a grower would be in the $50 to $75 range per crop per acre.

I think there is another point that has been brought up. If the commercial beekeepers that are producing honey went to the pollination, they would be competing with the beekeepers who are doing pollination, and based on the law of supply and demand, the price the grower would pay would decline because of the initial overabundance, and you would have an elimination of beekeepers and probably an increase of pollination costs overall, but a large loss of beekeeping pollination initially.

Mr. NIRENBERG. The Department, in their report, suggested that if there were no Honey Program, that honey producers who lost the income provided from the program would end up charging pollination fees where they do not now do so.

Do you have any thoughts on that statement?

Mr. **Robinson**. Only as I commented earlier, that many of our larger commercial beekeepers are operating in areas where they would not go, would not be there if it were not for the honey production, and I do not think they could afford it nor could the farmer afford enough to pay them to come there just for pollination.

Mr. **Ambrose**. What Mr. Robinson said is true. Plus the fact some of these beekeepers who are producing honey are not set up for pollination services. They would have to acquire transport equipment and handling equipment to go in the business. So you have one working against the other.

Mr. **Nirenberg**. Both you gentlemen mentioned something about the imports.

Would you tell us which countries we import honey from?

Mr. **Robinson**. Well, the major ones are Mexico, Canada, China, and Argentina.

Mr. **Nirenberg**. Is there one certain country that would have the bulk of our imports or is it evenly distributed between those countries?

Mr. **Robinson**. I think Mexico over the past 10 years has probably been No. 1 the majority of the time. China was No. 1 for several years.

Mr. **Ambrose**. The People's Republic of China has gone into the export business of honey, and they have become a major supplier. And as Rob said, China has been our No. 1 supplier.

Mr. **Nirenberg**. It is conceivable that all of our honey needs could be supplied by imports, or is there a certain limit to how much honey could be produced in the other countries?

Mr. **Ambrose**. We produce approximately 20 million pounds of honey which is probably about a fifth of the world supply. So if our beekeepers went completely out of business, which would not happen because you would still have some hobbyists in operation, then that leaves you with four-fifths of the world supply of honey being produced outside the United States.

So, if we are willing to pay the price, we can realize the loss, but the price would have to increase.

Mr. **Nirenberg**. Can either of you gentlemen identify for us why each of these countries that has been moving honey into our markets has a competitive advantage which allows them to undersell our producers?

Mr. **Robinson**. Well, I think the same factors that are involved in all of agriculture in many cases, the strong dollar, the rate of exchange, many of these countries, Mexico and Argentina particularly, are desperate to export anything they can lay their hands on to maintain and service their foreign debts. I think and many other people feel that in the case of China their becoming a major exporter of honey was not due only to increased production in that country so much as it was diversion of their honey from their domestic use into export.

Mr. **Nirenberg**. Any additional comments, gentlemen?

Mr. **Ambrose**. I think that is all true. Of course, we are dealing with a lower standard of living, so your labor costs are less, and we have never been able to get any definite answers on it. But the possibility of earning foreign exchange by using honey as a cash crop, particularly in a situation of the People's Republic of China, we really do not know what the producers are being paid there, but it is a set amount and the number we keep hearing is between 5 and 10 cents a pound for honey, which may or may not reflect their true production costs. That is one reason for requesting an International Trade Commission investigation.

Mr. NIRENBERG. Thank you very much. I appreciate your coming to this hearing and providing the committee with your testimony. I found your testimony very interesting, which I am sure will be most helpful to the committee when a policy is drawn up later this year. Thank you.

The next panel will discuss wool and mohair, Stephen Gillmor, who is the chairman of the board of directors of the National Wool Growers Association, Salt Lake City, UT; George Waldrep, who is the corporate group vice president for manufacturing from Burlington Industries, Clarksville, VA; Fred Eagleson, who is a sheep producer from Buchanan, ND; Dr. Ronald Parker from the Sammen Sheep Farm, Henning, MN; and Fred Campbell from Southwest Wool & Mohair, Eden, TX.

I would like to welcome you gentlemen. You may choose to summarize your statement. Of course, the entire statement will be printed in the record.

Mr. Gillmor.

STATEMENT OF STEPHEN T. GILLMOR, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL WOOL GROWERS ASSOCIATION, SALT LAKE CITY, UT

Mr. GILLMOR. Mr. Chairman and members of the committee, my name is Steve Gillmor.[1] I am chairman of the board of directors of the National Wool Growers Association, which consists primarily of 30 State and regional sheep producer organizations, and it represents approximately 90 percent of the Nation's wool and lamb production.

I reside in Salt Lake City. I was formerly commissioner of agriculture for the State of Utah. My son and I operate a typical ranch operation in Utah, mainly a migratory operation, and as a range operation, we harvest renewable resources from our steep mountain slopes in the summer to the vast area of the desert in the winter. We produce food and fiber on land not suited for other livestock. Sheep grazing is necessary to the ecosystems of the ranch lands, as documented by the Forest Service and the USDA.

The domestic sheep industry provides economic stability to our communities and associated agribusinesses. It provides a 4½ times multiplier to the overall economy. We provide forage for wildlife and preserve the environment in its natural near pristine state. We also support a $30 billion textile industry.

I appear before you today to request renewal of the Wool Act in its present form, and I emphasize in its present form. The survival of the American sheep industry is absolutely dependent upon the fulfillment of this request, and the need is accompanied by 125,000 Americans who raise sheep for a livelihood in all 50 States.

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[1] See p. 552 for the prepared statement of Mr. Gillmor.

The Wool Act is in its 30th year of operation. In 1954, the Tariff Commission recommended to then President Eisenhower to raise tariffs to protect our troubled industry from unfair subsidies and foreign imports. As bargaining chip for foreign military bases and lower priced consumer goods, the U.S. Department of Agriculture prepared the present price support program that we now know as the Wool Act.

The Wool Act is unique among other commodity programs in that it does not cost the American taxpayer one dime. It is totally funded from a 10-cent tariff collected on imports. Since 1954, $3.6 billion has been collected on wool tariffs; $1.4 billion of that has been paid to wool producers and $2.2 billion has gone to the U.S. Treasury. The Wool Act is, in fact, a money maker for the U.S. Treasury.

The Wool Act does not create a surplus commodity but maintains and supports an industry critical for the domestic and military security of our Nation. The 10-cent tariff does not raise the price of consumer goods significantly. The 3 or 4 pounds of wool it takes to make a man's suit, there is about 40 cents worth of wool in a $300 or $400 suit.

Domestic wool is vital to our Nation's military and national security. Only last year former Senator John Tower, chairman of the Armed Services Committee, said the Wool Act has done its job in allowing our Nation to be independent of foreign sources of wool in the case of conflict. Wool uniforms are vital for the protection and survival of our Armed Forces serving in cold climates during combat, and I think about the incident in the Falklands when synthetic uniforms burned and melted on the backs of sailors and they had to switch to cotton uniforms even though there were subzero temperatures to avoid the terrible burns that were received from synthetics. We are all reminded of World War II and what happened to Hitler in Russia without an adequate wool supply and what the United States had to do in providing wool for England and France during that troubled period at the outset of the war. History is a dear teacher.

The Wool Act is market-oriented in encouraging genetic breed improvement, better wool handling and competitive market strategy to receive the highest possible price to the producer.

The Wool Act is equated on the basis of production per animal. We have a range of sheep producers producing individually from a low of about 20-head farm flocks to 20,000 head in units in the Western range operations.

With the present economic problems of heavily subsidized foreign imports severely depressing our markets, inadequate predatory control without the use of toxicant 1080 and the proposed three times grazing fee increases on public use, a cap on an incentive payment to individuals would eliminate the largest producers who provide the bulk of our domestic wool and lamb production.

These range operations cannot be got into and got out of on an annual basis. They have to be maintained.

We have a referendum which supports a self-help promotion fund administered by the American Sheep Producers Council to provide education, information, market production, and market information for wool and lamb. We pay for it out of our own pockets. The American sheep industry is family farm and ranch oriented. The sheep industry is the major source of income in 34 States with sheep raised in all 50 States.

Over 125,000 families in America earn their living all or in part from sheep. According to a 1984 USDA study without the support price, the average producer would have only broke even in 1981. Net revenue declined from about $9 profit a head in 1980 to over a $4 loss by 1983 with the Wool Act intact.

Presently, the income from wool is 34 percent of our total income. Sheep are often the glue that binds a family operation together. Without an effective Wool Act, many thousands of sheepmen cannot survive.

To soften the impact of subsidies and unfair imports, we ask that those that export wool to the United States help pay to keep our industry alive, not the American taxpayer. Please renew the Wool Act in its present form. Let history dictate the obvious need for food and fiber. Consider the shepherds of Biblical times, past Presidents George Washington and Thomas Jefferson and their wisdom to perpetuate the production of this unique fiber, wool.

I am reminded we were here last week in the Idaho delegation which had a new bumper sticker which said "Sheepherding is the world's second oldest industry."

I thank you for your indulgence, Mr. Chairman, and I would like to give this pamphlet to you which is our digest of the Wool Act. The other document which I just spoke to has been received and we would like to also add this to our materials.[1]

Mr. **Nirenberg.** Thank you for your testimony.

Mr. Waldrep.

STATEMENT OF GEORGE WALDREP, CORPORATE GROUP VICE PRESIDENT, BURLINGTON INDUSTRIES, CLARKSVILLE, VA

Mr. **Waldrep.** Mr. Chairman, we appreciate this opportunity to submit this statement in support of renewing, as presently written, the National Wool Act.

I am George Waldrep, corporate group vice president for manufacturing of Burlington Industries, Inc., and I am appearing on behalf of Burlington and the American Textile Manufacturers Institute, ATMI.

Burlington is the Nation's largest and most diversified manufacturer of fabrics and related products for apparel, home furnishing and industry. We employ 50,000 people in 10 States and 66 communities. One of our largest divisions produces worsted fabrics of 100-percent wool and blends of wool and polyester for the menswear, womenswear, and uniform markets.

I brought along today an associate, Lawrence Easter, who is executive vice president of Burlington Industries Wool Co. The Wool Co. is one of the major buyers of wool in the United States Mr. Easter also serves the wool textile industry as chairman of the Wool Committee of the American Textile Manufacturers Institute.

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[1] Retained in committee files.

ATMI is the central trade association of the American textile industry representing about 80 percent of the domestic industry for the spinning, weaving, knitting, and finishing of wool, cotton, and man-made fibers. The American textile industry represents a major industrial segment of the Nation's economy, employing approximately 750,000 people including 47 percent women and 25 percent minorities through which American-grown wool moves to market.

Wool is a major raw material for our industry. Therefore, Burlington and the other member companies of ATMI have a keen interest in the policies of the Federal Government with respect to this fiber. It is important that the U.S. wool growing industry is maintained as a healthy, reliable supplier of fiber to our industry, especially in light of the fact that textile and apparel imports are seriously eroding our industry's market share, causing loss of jobs and plant closings.

Wool plays a major part in our Nation's military supply programs, as previously mentioned. It is used in such items as blankets, underwear, socks, sweaters, and uniforms. By law, the wool used in these products is grown in the United States. Other major sources of wool in the world are the Southern Hemisphere, far removed from our shores. In times of crises, past history tells us that our supply lines can be interrupted, seriously affecting our ability to supply our military forces and our civilian population with these strategically vital products. As a leading supplier of military fabrics produced from wool, it is our view that our Nation must maintain a base supply of wool grown in this country to support our national defense.

Over the past 10 years, we have seen a revival of consumer preference for products containing natural fibers. Wool has been one of the fibers that has participated in this renewed demand and we are convinced that this trend will continue.

Wool consumptions by American mills has increased 50 percent since the mid-1970's. If we are to retain a fair share of this growing market, we must encourage the growing of wool in this country and maintain a modern competitive textile and apparel industry. Burlington and other mills in our industry have made and are continuing to make major capital investments to build state-of-the-art manufacturing facilities.

Wool is used in high-fashion menswear and womenswear garments which set the fashion trends for moderate and lower priced garments. We cannot afford to lose this fashion leadership position. For example, major companies like Hartmarx with operations in Illinois; H.D. Lee in Kansas; Levi-Strauss in California; Jaymar-Ruby in Indiana; and Palm Beach in Kentucky are some of the fashion leaders using wool fabrics.

Wool's impact on our Nation's total economy is far greater than it appears at first glance in that all 50 States are involved with wool in some way. This should be understood when considering renewal of the Wool Act.

Wool prices are established on world markets and are influenced by the major producing nations' policies and practices, supply and demand, currency relationships, and other factors. U.S. wool market prices are largely determined by the international price of wool over which our wool growers have little control. The Wool Act provides a pricing system which gives our growers the incentive to continue to produce a wool clip in this country. This, in turn, provides a reliable supply of wool fiber produced in America to meet the needs of our wool textile and apparel industry.

More than half of the wool now consumed by our industry is presently imported. Without renewal of the Wool Act, production is forecasted to decline sharply and, therefore, imported wool fiber will increase, adversely affecting our balance of payments which, as you already know, is in serious deficit.

The type products now in fashion demand requires better quality wools. This trend is expected to continue for the foreseeable future and will become more important to U.S. fabric producers and apparel manufacturers. The National Wool Act provides an incentive for wool growers to improve the quality of their wool clips.

For the reasons as stated, Burlington Industries, along with the other members of the American Textile Manufacturers Institute, endorses the renewal of the National Wool Act, as presently written, and recommends its inclusion in the 1985 farm bill.

Mr. Chairman, I also would like to point out that earlier we stated the U.S. textile industry has a serious problem with imported textile products and apparel, including those made of wool. In order to correct this problem, new legislation has been introduced in the Senate, S. 680, the Textile and Apparel Trade Enforcement Act of 1985. We ask your support and that of the committee for this legislation.

Thank you again for the opportunity to express our views on the renewal of the National Wool Act and the importance of wool growing to the U. S. textile industry and our Nation. Thank you.

Mr. **Nirenberg**. Thank you very much.

Mr. Eagleson, I know Senator Andrews wanted to be here, but an African relief conference report is being discussed on the floor. He is being detained by that. Please go ahead.

STATEMENT OF FRED EAGLESON, SHEEP PRODUCER, BUCHANAN, ND

Mr. **Eagleson**. I am Fred Eagleson. I am a sheep producer from Buchanan, ND.

I would like to speak on behalf of the 2,100 lamb and wool producers of North Dakota in asking for your support to extend the Wool Act as part of the 1985 farm bill.

My family operates a 300-ewe flock in central North Dakota. The income from the incentive payment made by the Wool Act and the indirect benefits received from the American Sheep Producers Council product promotion programs that it funds are an important part of our operation.

The two outside factors that have a great influence on our operation but over which we have no control are interest rates on operating money and competition from foreign products made more competitive by the strength of the U.S. dollar.

The wool market in our area is down 26 percent from a year ago. This is as a direct result of imported wool being supplied at or below U.S. prices because of increased dollar value. The amount of imported wool textiles has also increased significantly. Large increases in textile imports have limited orders received by U.S. mills. Therefore, mills have cut back the amount of wool that they buy which results in lower prices for the producer. The incentive payment made to producers under the Wool Act is the single factor that allows us to produce on an equal basis with foreign competition.

The fact that the payments are based on the value of your wool clip is a true incentive to produce a higher quality product. The price of wool must be high enough in relation to the price of lamb to provide the economic incentive to emphasize high quality wool production. Because of consistent economic return for wool in past years, growers in my area strive to produce wool that is free of contamination and is of high-fiber quality, that is a more desirable product for the wool mill.

One of the unique points of the Wool Act is the self-help provision that allows for a check-off from the incentive payment to fund the lamb-and-wool-product promotion, research and new product development projects of the American Sheep Producers Council.

The mission of the American Sheep Producers Council is to improve the profitability of the American sheep industry. Its program is directed toward that goal.

The Wool Act is unique in that the producer-incentive payments and the administrative costs are funded by a tariff on imported wool and wool products. This is a means of letting those that export wool to the United States pay for the market disruptions that they create. The tariff has a very minimal effect on the consumer because of the small portion that raw wool has in the price of a finished wool product. The Wool Act is administered at no cost to the taxpayer and has, in effect, contributed $2.2 billion in excess revenue to the U.S. Treasury since 1954.

The sheep industry has overcome the 2-year drought in the Southwest, the severe blizzard on the Northern Plains just a year ago, and coyote predation that reduces our marketable product. Despite adversity, the American sheep industry has the ability to produce food and fiber of quality second to none, utilizing grazing lands unsuited to any other purpose.

The sheep industry is counting on renewal of the Wool Act to offset the impact of imports and have a very positive influence on the revitalization of the sheep industry.

The Wool Act is a successful program that deserves the continued support of Congress.

I thank you for this opportunity to address you.

Mr. **Nirenberg**. Thank you.

Dr. Parker.

STATEMENT OF DR. RONALD B. PARKER, SAMMEN SHEEP FARM, HENNING, MN

Dr. **Parker**. Thank you, Mr. Chairman.

The Wool Act has had a considerable beneficial effect on wool production in the United States and should be continued in much its present form. The act also has positive effects on the overall profit/loss picture of participating sheep and lamb producers, but its impact on types of wool produced domestically is a vital political goal that is amply justified by the general national interest.

I have been casually connected with the sheep and wool industry for 30 years, and have been a full-time producer for 9 years. I moved to sheep raising after being a university professor for 17 years. I am a natural scientist by training and experience, and have applied my scientific background to my shepherding in a number of ways. I am also the author of "The Sheep Book" published in 1983 by a major New York publisher, as well as author of numerous articles in industry magazines. "The Sheep Book" is currently in a third printing in hard cover, and recently was issued as a mass-market paperback by Ballantine Books.

I mention this because the wide distribution of "The Sheep Book" means I get letters and phone calls from all over the country from sheep producers who have specific questions about a variety of topics. Most of these are small producers with limited experience and no close connections with the industry. I have even had a call recently from a person whose county agricultural stabilization and conservation service office was administering the Wool Incentive Program incorrectly. Those of us who consider ourselves commercial sheep producers are well represented by our industry organizations, but the small producer or the person who is new to sheep does not have an advocate. I am here to represent myself and those people as well as the main line industry.

The central issue that must be considered in renewal of the Wool Act is quality. Any sheep will grow wool, but only some sheep produce a fleece that is of top quality. The Wool Act should be designed to encourage growers to produce quality wool. Quality is partly a matter of cleanliness, and partly a matter of fiber characteristics. A quality fleece is uniform in fiber diameter and, with white wool, uniformly white. The characteristics that make a fleece desirable to buyers are tied to the genetic makeup of the sheep.

A Wool Act that rewards the grower who produces high quality wool has the effect of influencing the choice of breeds and individuals by that grower. A second factor is the value of lambs. Many growers focus on lamb production and ignore the value of the wool clip. In an ideal world, both quality wool and valuable lambs would come from the same sheep, but in many flocks, this is not so. This is most unfortunate because wool type is a highly heritable trait, and any grower can improve wool quality without sacrificing other traits.

In many parts of the United States, mostly the farming regions, sheep are grown primarily for lambs. In the West and Mountain States, wool is a significant product. Scattered around the country there are also people who raise uncommon breeds of sheep for exhibition at livestock shows or for production of specialty wool for handspinners and weavers. All of these segments of the industry are needed because they, together, provide us with a broad genetic spectrum.

We do not know what kind of sheep we will want 10 or 20 years from now. And we need genetic variability to be able to tailor sheep to our future needs. The variability cannot come from overseas in general because of disease problems, with resulting import restrictions, so we need the genes here in our country.

The danger of a diminished Wool Act is that it would further discourage producers from looking at wool quality as a factor in selecting their flock. This would result in the meat-type breeds becoming more and more important, to the detriment of American wool production.

Wool is a valuable commodity that must continue to be produced in both quantity and quality in the United States. In a national emergency, we could not depend on imported wool to provide our needs in both the civilian and military arenas. Synthetic fibers are simply not a match for wool as material for clothing for cold weather. In a study reported in the prestigious journal Science, wool was a very close second to down as an insulator, and much better than several popular synthetic insulating fibers.

The present Wool Act is different from other agricultural programs in that the producer is paid more from the program if he sells his wool for a higher price. Those who have get. This is a highly desirable situation because it encourages the grower to choose sheep who produce quality wool, to take better care of the wool, and to make efforts to market it at a higher price. The present Wool Act makes a grower focus on the wool, and wool, not lamb, is the product that would be vital to the country's needs if foreign supplies were cut off. We could survive on beef, pork, or soybean curd, but there is no equal substitute for wool. A Wool Act that rewards producers of quality wool encourages growers of meat-type sheep to also pay attention to wool. One segment of the sheep industry tries to ignore wool as a product, and that practice has resulted in an increase of numbers of sheep that grow low value wool. The Wool Act can be designed to counter that trend.

If I were to suggest any changes in the Wool Act, it would be to make the rewards to the producer even more progressive than at present. At present, every producer receives a payment that is a percentage of his total dollar sales of wool. Perhaps the producer who gets a high unit price for his wool should receive a higher percentage incentive payment than one who receives a below average price. Perhaps the grower whose low quality wool sells for some factor below the U.S. average price should receive no incentive payment at all. The incentive payment should be a real incentive for the producer to improve his act.

Certainly the new Wool Act payments must not be based on quantity of wool. Payments based on quantity do not encourage production of quality wool, and would have a negative impact on the goal of quality. Payments based on quantity encourage the production of low quality wool that weighs a lot. For example, if quantity is the unit, then a fleece that is filthy with manure and mud will derive more income for the producer because it weighs more than a clean one. Payments from the Wool Act have the effect of assisting the sheep producer's overall profits, but the payment must be based on dollar value of the wool clip, not the weight, in order to achieve the political goal of encouraging quality. It is entirely appropriate that Congress should use legislation to achieve national goals, and a Wool Act that rewards quality serves the national interest in a highly positive way.

Thank you, Mr. Chairman.

Mr. NIRENBERG. Thank you very much, Mr. Eagleson.

Mr. Campbell.

STATEMENT OF FRED CAMPBELL, SOUTHWEST WOOL & MOHAIR, EDEN, TX

Mr. Campbell. Thank you, Mr. Chairman, for allowing me the opportunity to discuss with you briefly our interest in the Wool Act.[1]

I speak to you on behalf of the mohair industry in the United States, and as an individual producer.

I am Fred Campbell, I live on a ranch near Paint Rock in Concho County in west central Texas.

I am involved in marketing wool and mohair for producers, and also raise Angora goats, wheat, cotton, and cattle.

In the brief which we have presented to the committee, we point out the many positive features of the Wool Act, and what it has accomplished, both for the mohair industry and, in turn, for the Nation.

There have been only four payments to growers in the past 13 years, and I am speaking of mohair, totaling just under $35 million. However, total mohair sales for the same period have been $368 million, almost all of which has been in export sales.

Mohair comes from the Angora goat. It is the most important specialty animal fiber produced in the United States. With a world population of only about 4 million head, our Nation is privileged to have about 25 percent of the population.

Together with Turkey and South Africa, the United States accounts for about 85 percent of the world mohair production. Since a large part of the Turkish clip is produced and consumed internally, or bartered with the U.S.S.R., the free world depends on us and South Africa to provide the raw mohair needs, particularly of the higher quality product.

The four reasons for renewal of the Wool Act are these: No. 1, since inception of the act, the revenue generated from mohair sales has totaled over $600 million, and since it is an export commodity, this has contributed to a more favorable trade balance.

No. 2, Angora goats make excellent use of low quality range plants. In addition, they contribute to water conservation, by utilizing water-wasting woody brush plants. Angoras are often used to open up brush-infected pastureland, instead of toxic chemicals, such as 45-T.

No. 3, in recent years, many Angoras have been purchased by owners of small land tracts, to make more economical use of existing vegetation, and to supplement other incomes.

For example, in Michigan a few years ago, when the auto plants were being hard hit, unemployed workers used Angoras to provide income from submarginal land units.

No. 4, income from mohair is very important to producers. In one large part of Texas, an area as large as the State of Pennsylvania, and to members of the Navaho Tribe, who reside on tribal lands in the Four Corners area of Utah, New Mexico, Colorado, and Arizona. Nationwide, there are about 10,000 ranch families who depend on the Angora goat for the major part of their income.

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[1] See p. 556 for the prepared statement of Mr. Campbell.

Other dependent industries account for thousands of additional jobs that rely on mohair. Since mohair is a specialty fiber, its market is subject to many problems, including manipulation. Due to the volatility of market prices, both producers and end users seek some measure of stability as is provided by the terms of this program. This floor price tends to give lending institutions on our area confidence in financing Angora goat operations, as these wide price fluctuations are thereby limited on the down side.

There appears to be no reason to discontinue, modify or expand the Wool Act, as it has performed exactly as the original legislation intended. This industry, due directly to the unique features of the Wool Act, is one of the best examples of a segment of agriculture that has been improved by Government cooperation.

The Wool Act has allowed producers, at no cost to the taxpayers, to improve the quality and quantity of their product in response to world demand, and in spite of price manipulation.

The mohair producers in the U.S. trust that Congress will continue to acknowledge the effectiveness of the Wool Act. They hope that Congress will realize criticism of the act is not based on any flaws in the legislation, but rather based on influences outside the original legislation.

Mohair producers do not want, nor do they see the need to make any change in the Wool Act. The act should be renewed, retaining the incentive feature, the tariff revenue link and the concept that producers can conduct advertising and promotion programs, such as we have with the Mohair Council of America.

A change for the sake of standardization appears to serve no real purpose, and could irreparably harm a sound and growing industry.

Thank you, Mr. Chairman.

Mr. NIRENBERG. Thank you.

Mr. Gillmor, on page 6 of your testimony you talk about how the program was designed as an incentive to improve the quality of wool, an issue we heard Dr. Parker discuss as well.

How does the USDA measure the quality of wool?

Mr. GILLMOR. The USDA does not actually measure the quality itself. The measure of quality is in the price the grower receives, and we talked about weight. Most of the sales on wool today are on a clean basis price, so they are not buying dirt, they are buying the clean wool product. So the people like Burlington, and other wool handlers, they gauge the wool by the quality. This is a micron count of the wool, and the finer the wool at the present time, the higher the price.

So the price we receive reflects the quality of the animal we grow, and when I talked about genetic improvement, if you want to upgrade your sheep by the type of breed that you use, if you use a fine Rambouillet-type sheep to grow a fine grade of wool, what we call 64-70 in the trade, then this is the highest quality wool grown in our area of America, and we would then receive the highest price for the wool.

So this is how it works. The USDA does not make that grade.

Mr. **Nirenberg**. Are there any published statistics, or data, which would tell us, since 1954, whether we have produced more or less high quality wool?

Mr. **Gillmor**. I would yield on that statement of quality of wool. I would assume, from being a grower myself, as the demand for any product comes along, you try to satisfy that demand. My own flock is probably two microns finer than it was 20 years ago, because of the need for finer wool.

So I would answer that yes. If you look at the number of sheep, and the amount of wool produced in that period that you described, it is a decline. So the percentage of fine wools, as to coarser wools, I would yield on that answer to our experts in the textile manufacturing trade, to see what the percentage of change has been. But from a grower's viewpoint, I have upgraded my own flock that much.

Mr. **Nirenberg**. Mr. Waldrep.

Mr. **Waldrep**. We have no numbers.

Mr. **Nirenberg**. Dr. Parker, is that a trend, that you find that we have had, lower quantities produced, but higher qualities?

Dr. **Parker**. In our limited area, representing farm flocks, very much so, with the production of more white-faced, finer wool sheep. Over the past 10 years or so, they have become more popular.

There is certainly a change there, but again I cannot give you any hard numbers.

Mr. **Nirenberg**. Dr. Parker has proposed a new way, as I take it, a new way to make wool payments.

Mr. Gillmor, do you have any thoughts on his proposal?

Mr. **Gillmor**. I think, as I explained earlier, the program is working well, because we are growing toward a product demanded by the market. We, as individuals, have improved our flocks genetically.

I think that the old grease price, the fellow who shoveled sand in a bag, the kind of things you heard about, the old time way of doing things, those are yesteryear. They are practices of the past.

I see wool growers much more sophisticated today, doing a better job of handling, doing a better job genetically of producing their product, so I do not see the need to change the structure in the payment.

I think the incentives are built in the price he receives, and the price you receive is multiplied by a fact of the national average, so the more you receive, the more you end up with as the bottom line, in the gross amount that you get from your wool, what you got from Burlington, and in addition to that, which you got through the incentive program. So the higher you sold your wool, the higher the price you received from that formula.

Mr. **Nirenberg**. Dr. Parker, do you have any comments?

Dr. **Parker**. I mentioned that if there is any possibility of a change, because the sort of change that appeared in the administration bill would be to reverse that progressive nature of the payment and to pay it by the pound of wool, and I think that would be completely destroying the intent of the Wool Act.

Mr. **Nirenberg**. Thank you.

Mr. **Campbell**. Could I make a comment on your statement about the quality of wool produced in this country?

Besides being involved in growing, I am also involved in the marketing of wool in a fairly significant way in the State of Texas. I would like to say I think there has been a dramatic change in the production of higher quality wool, maybe not in the volume, but in the quality of it that we produced in the last 20 to 30 years. We are seeing a lot more sophisticated testing of wool that we produce, and I think our producers are much more knowledgeable about fineness, uniformity of fineness that is required, the grading, the length, and in recent years we have increased the quantity of wool that has been skirted, having the bellies removed to lower black and fiber color content. We have seen a big increase in improvement in the preparation of our clip. I think all of this has largely been influenced by the Wool Act since if we can do a better job of growing it and marketing it and get a better price for it, then we are rewarded, you might say, bv a higher price for this clip and in terms of the wool incentive payment too.

So I think it has had a dramatic effect, and I think we do want the act to get credit for that.

Mr. Gillmor. Mr. Chairman, for clarification of this, I do not think the doctor made the comment in an area to bring up a conflict of ideas. Visualize two things: In the range States we grow large flocks of range sheep with homogenous quality in grade of wool. In the farm flock States, it is a little different program. They are oriented more toward lamb production. They are smaller flocks. They are used to clean up residual crops on the farm, et cetera, and they are oriented more to the production of lamb and the wool is of lesser importance in those States. So you get a greater variety of wool types and grades, and you get more toward the mutton types which are the coarser breeds of wool, and they also have black fiber, et cetera. So it is not of as much importance with as much emphasis in those farm States as you see it in the West. That is the smaller quantity of wool here in America, and out in the 11 Western and also the other 8 grazing States, this is where the bulk of the wool is produced, and so we are both telling the story about our area, and that is the minor part of the wool production. As he said, they are upgrading their flocks as they go, and we are seeing tremendous growth in the farm flock States and more and more farmers getting into the sheep business because it does help in their cash flow with their farms all the way through. But the emphasis is a little different in the West.

Mr. Nirenberg. Over the past 10 years, what has happened to the quantity of wool produced in this country?

Mr. Gillmor. Would you like me to answer that?

Mr. Nirenberg. Yes.

Mr. Gillmor. During the period from 1954, the beginning of the Wool Act, to 1983—I am reading from this publication—there were 27.7 million sheep. In 1983 there were 12.6 million. So if you want to go to 1973, to be specific to your question, in 1973 it was 17.4 million and today it is 12.6 million. But there has been a continual reduction of numbers.

Mr. Nirenberg. Why is that?

Mr. Gillmor. It is the economics of the industry. I guess we have said many times we can compete with about any other sheep producers in the world, but we cannot compete with other governments. We are competing with other nations that are highly subsidized. New Zealand is coming in with a product where the subsidies run up to 40 percent of value, with 19 different subsidies. We cannot compete with them.

We have predation of our flocks. We have had some of the tools removed that we had years ago in the use of toxicants, 1080. In the range States, we feel that with the cost on public lands—it is high now and they are talking about tripling it. We have labor problems that we have to deal with. So our costs of production are extremely high, and it has just not been a good business to be in. It has been a declining business for many years, and so that economically is the decline in America.

Mr. NIRENBERG. You have suggested there may be a time when the Wool Act could expire, when we meet our domestic needs with our domestic production.

Do you ever really project that coming about?

Mr. GILLMOR. We are all dreamers and we are all optimists. Somehow we hope the price of wool is high enough that we do not need subsidies or an incentive payment to help us in getting by. It has happened with the mohair people. The demand for their product—they have received payments only a few years out of the many that they have been a part of the Wool Act. If wool ever becomes that scarce and that great a demand in the United States, why, theoretically it could happen, and we would welcome that.

Mr. NIRENBERG. Mr. Waldrep, you were talking about imports of wool and suggested that more than half the wool consumed by the industry comes from overseas.

Why is that?

Mr. WALDREP. It is not available on the domestic market, total U.S. consumption.

Mr. NIRENBERG. Not available.

Is it the price would not be high enough?

Mr. WALDREP. Quantity.

Mr. NIRENBERG. Have your imports in the industry increased or decreased over the past few years?

Mr. WALDREP. They have increased. As the domestic clip has dropped, the importation of wool has increased.

Mr NIRENBERG. Do you have any feelings for how the quality compares between what you are importing and what you are buying here in the United States?

Mr. WALDREP. Under the same basis, I think it is very, very comparable. What you have to look at on the domestic role, say, versus wool grown in Australia, it is the grain in the particular area it is grown in, feed, the amount of vegetation, climate conditions, et cetera. When you have comparable growing regions, I think it is of equal quality.

Mr. NIRENBERG. Over the past 10 years we have seen production has dropped. If Congress wanted to turn that trend around and encourage production of wool, how high would it have to set the incentive price?

Mr. GILLMOR. Well, based upon what we are looking at today, the incentive price for this marketing year is set at $1.73. It would be my judgment that we would have to increase the incentive level, as we have in the past, and have it on a graduating scale some place in line. This is how it was developed in the first place, using that basic structure into the program. So as costs go up, the Wool Act would have to go in the incentive payment on a comparative basis.

Mr. NIRENBERG. Mr. Campbell, as a mohair producer, your price is pretty much set as a function of the wool price support level.

Would it be advisable for us to provide a separate program for mohair?

Mr. CAMPBELL. We think this program works very well as it is structured. It gives a good level of stability by providing more of a safety net under our market. We really like it when we do not have a payment, and we like to see our market price fluctuate with the world price and where we can sell without any government cost or involvement at all. So we feel like the way the thing is currently structured is satisfactory.

Mr. NIRENBERG. Mr. Eagleson, I believe you talked some about the military uses of wool.

Do any of you gentlemen have an idea of what percent of the U.S. wool clip is provided to our military?

Mr. GILLMOR. Did you ask Mr. Eagleson?

Mr. NIRENBERG. Any on the panel may respond.

Mr. GILLMOR. It is around 20 percent. It will go up and down depending on what the procurement levels are. They buy long term and level out. It is around 20 percent.

Mr. NIRENBERG. It has been suggested we could conceivably meet our needs for wool by stockpiling for future needs.

Why would that not work?

Mr. GILLMOR. You have to buy and stockpile wool. Wool is an expensive commodity. We have been talking sometimes $3 to $4 a pound. There are tremendous interest charges on that too, plus the wool would have to be kept under good condition to make sure it did not deteriorate because it is a protein fiber. So those are some of the limitations, but I would think the carrying cost of that wool would be tremendous.

We are also not creating surpluses and storage. We do not want to be accused of that. We have not done that in our program.

Mr. NIRENBERG. Mr. Gillmor, you suggested that the Wool Act generates revenues to the U.S. Treasury.

The tariff, is that provided for in the 1954 act?

Mr. GILLMOR. Yes. It has had a diminishing structure since that time, and the 25½ percent at that time is now 10 cents a pound.

Mr. NIRENBERG. If we were to eliminate the 1954 act, that would eliminate the tariff revenues that have been provided to the U.S. Treasury?

Mr. GILLMOR. We think it would. It would not be long before there was not any tariff. It is very minimal. We believe as the sheep industry that the Wool Act and the reason for the incentive in the Wool Act is the reason for the tariffs to stay in place as they presently are.

Mr. NIRENBERG. World prices are currently at what level?

Mr. EASTER. They are around $2 today and about 15 percent cheaper than they were a year ago because of the strength of the U.S. dollar vis-a-vis the Australian dollar, for example.

Mr. NIRENBERG. Without the wool program, what would you gentlemen suggest would be the effect on world prices for wool or the prices Mr. Waldrep would pay for wool for his product?

Mr. WALDREP. There would be no change. I do not think this would affect it at all.

Mr. NIRENBERG. Does anybody else have any comments before we close the hearing?

Mr. GILLMOR. We appreciate your having us come in and hear our testimony as to the need to renew the Wool Act. We appreciate that very much.

Mr. NIRENBERG. Thank you very much. We appreciate your attendance and providing information that I know will be very helpful as we draw up the farm legislation.

The committee is adjourned.

[Whereupon, at 4:25 p.m., the committee adjourned, to reconvene, at 9:30 a.m., Wednesday, April 3, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Peanut Issues

WEDNESDAY, APRIL 3, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Howell Heflin presiding.

Present: Senators Helms, McConnell, Zorinsky, Melcher, and Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. The committee will come to order.

Today's hearings will deal with receiving testimony on the peanut provision of the 1985 farm bill, and I want to thank all of the witnesses for coming today.

Peanuts are one of the world's principal oilseeds, ranking third behind soybeans and cottonseed. In the United States, peanuts account for less than 3 percent of the production of major oilseeds. U.S. peanuts derive most of their value from the use of the seed as an edible nut, both in the shell and shelled, and in edible products such as peanut butter and other products.

Prior to 1977, the U.S. growers produced considerably more peanuts than the domestic edibles market could absorb at support price. The peanut program, which was for the most part unchanged since the 1930's, resulted in increasing Government cost. The 1977 and 1981 peanut programs were designed to reduce Government costs and to bring domestic supply and demand levels for peanuts used in edible products into balance. The 1977 act implemented a two-price poundage quota program, but retained acreage allotments. The 1981 farm bill implemented a major change, which was a suspension of acreage allotments.

The Department of Agriculture series of publications, entitled, "Background for 1985 Farm Legislation" best summarizes this change. Since acreage constraints have been removed, anyone is allowed to produce peanuts. The most noteworthy change brought about by the 1977 and the 1981 legislation is the cost of this program to the taxpayers. The Commodity Credit Corporation expenditures during fiscal 1978 to 1983 have been reduced 90 percent, from fiscal 1970 to 1977. This change is one of the few commodity programs to be consistent with the philosophy of controlling and lowering Federal outlays.

I welcome the witnesses to the committee.

We are delighted to have Senator Mack Mattingly of Georgia as our first witness. I might say that Senator Sam Nunn is tied up in the Armed Services Committee and asked me to state that he will submit a statement in support of the current peanut program.[1]

He wishes he could be here, but he does have that as a primary obligation, since he is a member of that committee and is not of this.

Senator Denton also has conveyed to me that he wants to issue a strong statement in support of the current peanut program, and he likewise is tied up in Armed Services meetings today.[1] It is a markup, and since he is, of course, a member of that committee, he also could not be here.

Senator Mattingly, we are delighted to have you, and we would be delighted to hear you, and let the record also reflect your words of wisdom.

STATEMENT OF HON. MACK MATTINGLY, A U.S. SENATOR FROM GEORGIA

Senator MATTINGLY. Thank you, Mr. Chairman.

I would like to thank you for this opportunity to appear here today for the purpose of testifying on the provisions of the new farm bill regarding peanut production, peanut marketing, and the role of the Federal Government in relation to this important segment of agriculture.

Being a Georgian, I have a special interest in peanuts. Growers in Georgia raise about 45 percent of all the peanuts grown in this country, and the crop really represents a very substantial portion of their farm cash flow.

I am proud of the peanut growers in my State and throughout the peanut producing region of the country for their recent demonstration of ability, efficiency, and sheer tenacity in overcoming some very serious setbacks—setbacks which have resulted from natural disaster and adverse economic and marketing environments in the late seventies, lasting through the first year or two of this decade.

Back-to-back years of drought coupled with rampant inflation and outrageous interest rates which forced costs of producing the crop right through the roof were indeed formidable obstacles. Some growers did not make it, but many more did survive.

In many respects, the peanut program, administered by the USDA and implemented through the grower associations, provided much stability and gave growers a valuable tool which allowed the current recovery to begin.

This committee, the Congress and the taxpayers have the opportunity to examine a program which has worked successfully with minimal controls and at almost no cost to the Government during the past 4 years. We in the Congress must give fair consideration to the future of profitable peanut production, which forms the cornerstone of survival of many farms across the southeastern and southwestern regions of America.

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[1] See p. 578 for the prepared statement of Senator Nunn and p. 579 for the prepared statement of Senator Denton.

The peanut program was devised more than four decades ago to ensure that consumers would have available an adequate supply of high quality, nutritious peanuts to round out their diets.

Being a semiperishable commodity, peanuts were deemed to require a somewhat unique program in order to help achieve this balance of production and availability which also gives growers an opportunity to receive a fair return on their investment of time, expertise, and capital.

Mr. Chairman, I think that we realized in 1981 during the debate on the current farm legislation that there were some unintended inequities which crept into practice and which needed correcting in this program. Many Members of Congress found it unacceptable that those no longer actively involved in the production of the crop were able to reap a harvest of unearned profits by leasing or renting out the right to grow and market peanuts.

The original intent of Congress in creating the peanut program was to help both the active grower and the consumer. When we revisited the program in 1981, we found it had been twisted, in many instances, into a situation which was harmful to both categories of intended beneficiaries. The cost of leasing or renting the right to grow peanuts kept increasing as inflation pushed upward. This artificial cost meant that the farmer made less profit on his crop since the market price generally averaged somewhere near the crop loan level. When this crop reached the point that the farmer could not even make a profit, the loan level was raised, and we found that now the consumer was, in effect, paying the absentee landlord for the right to grow peanuts because the cost was passed along through higher shelf prices for peanut products at the grocery store.

And so the new legislation adopted 4 years ago affected peanut growers in several ways. In an effort to correct the unintended practice of allowing nonproducers to charge actual growers for the right to grow peanuts, provisions were adopted in that legislation which required allotment owners to grow their own peanuts on their own farm for at least 2 of every 3 years in order to retain the right. "Use it or lose it" was what the Congress said to nonproducers. And of course, this was designed to help both the farmer and the consumer by removing this artificial element of cost, thus restoring some grower profits while not adding significantly to shelf prices.

Of course there were a lot of complaints in the beginning. As usual, the Government found the most difficult way to implement the new law, causing much confusion and leaving bureaucratic debris along the way. But all in all, the new plan has proven helpful in most respects, and growers across the country tell me it has had a generally favorable effect on their business.

I feel that it is absolutely imperative that we retain this important element in the peanut provisions of the 1985 farm bill. We have started moving in the right direction by gradually placing the right to grow and market the crop into the hands of the actual grower, and we must not abandon that new direction now.

I am very encouraged that the chairman of this committee, my distinguished colleague from North Carolina, has wisely chosen to reauthorize the basic elements of the present peanut program in his version of the new farm bill, Senate bill 616. If there is any one commodity program which has proven its effectiveness in helping the actual grower at almost no cost to the Government, it is the peanut loan program. And it would indeed be foolish to abandon or radically alter it at the present time. Proof of the program's effectiveness is found by just looking at the figures which demonstrate continued growth in both domestic and foreign demand for the product. Growers are finding at least a reasonable measure of fair profit, and yet the program costs the U.S. taxpayers and the U.S. Treasury practically nothing. In fact, Mr. Chairman, your committee might even consider patterning other programs after this one.

Thank you, Mr. Chairman.

Senator **Heflin**. Thank you, Senator Mattingly.

Senator Helms, would you like to question Senator Mattingly?

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The **Chairman**. No, sir. I would just like to say "Amen."

I will tell you one thing, Senator, there is nobody here but us "peanut politicians" this morning. But maybe you will get some more Senators.

I came by to pay my respects to you, Mr. Chairman, and to say hello to my good friend, Mack Mattingly. That gentleman over there with the conservative coat—that is an Irish coat—we call him "Fleet O'Sugg" down in North Carolina. I am glad to see him.

May I exercise a small prerogative of the chairman here. There is a group of Alabamians out in the hall who have been denied entrance because it says "No room." I see some chairs over there, normally reserved for staff and that sort of thing; why don't we invite those Alabamians to come in here, Mr. Chairman?

Senator **Heflin**. I think that is a noble suggestion.

Senator **Mattingly**. If there are any Georgians out there, you can let them in, too. [Laughter.]

The **Chairman**. We cannot have the chairman's folks out there in the hall.

Senator **Heflin**. I would even be agreeable that if two or three North Carolinians are among them, that they can come in. [Laughter.]

The **Chairman**. Well, the Prince of Denmark is once said to have remarked, "That is a consummation devoutly to be wished."

I would even suggest that they take the chairs here at the table.

Welcome, gentlemen. You have a good chairman here, a former judge. Now, I will tell you what you do. For those who cannot find seats, you take the seats down there at the end of the committee table.

I do not think they want to be Senators. [Laughter.]

That shows their perspicacity.

Mr. Chairman, I just wanted to drop by and pay my respects. I have no statement. I know the witnesses want to get on with the business, and you do have several panels here. But I want to express my respect and admiration for you. You are an immensely valuable and important member of this committee, and I appreciate the cooperation and the facilitation that you give the committee. So, thank you.

Senator HEFLIN. Thank you. I appreciate your kind words.

Thank you, Senator Mattingly.

Senator MATTINGLY. Thank you, Mr. Chairman.

Senator HEFLIN. Senator Pete Domenici of New Mexico has a statement that he would like to have entered into the record, and it will, without objection, be entered into the record.[1]

Any other Senators, if they have statements, if they will get them in in a reasonable period of time, they will be made a part of the record.

We have as our first panel, Norfleet Sugg, executive secretary of the North Carolina Peanut Growers Association, Rocky Mount, NC; James Earl Mobley, chairman of the Alabama Peanut Producers Association, in Dothan, AL; Ross Wilson, secretary-treasurer of the Southwestern Peanut Producers Association, Gorman, TX; and Russell Schools, vice chairman of the Virginia Peanut Producers Association, Capron, VA.

We are delighted to have you, and if you will come to the table, we will be delighted to hear from you in whatever order you would like to present your testimony.

The CHAIRMAN. Mr. Chairman, may I suggest that you be careful to use the microphone. There is a very attractive lady up there, and she always throws the gavel at me when she cannot understand what they have said. So, pull the microphone close to you so that you can be heard by her and others.

STATEMENT OF NORFLEET L. SUGG, EXECUTIVE SECRETARY, NORTH CAROLINA PEANUT GROWERS ASSOCIATION, ROCKY MOUNT, NC

Mr. SUGG. Thank you, Mr. Chairman.

I realize you are sitting in the chair today, and my preamble comments representing the peanut growers of North Carolina are certainly addressed to our beloved Senator Jesse Helms.

I do want you to know for a matter of record that the peanut growers of North Carolina are extremely fond and have great respect for Senator Howell Heflin from the great State of Alabama.

Mr. Chairman, I am Norfleet L. Sugg, the executive secretary of the North Carolina Peanut Growers Association. We have 29 members on our board of directors, and all of them are active peanut growers. My comments on behalf of our association's board of directors, represent over 9,000 peanut farms in North Carolina.

Mr. Chairman, the peanut growers of North Carolina are pleased and honored to have one of their native sons, who has distinguished himself as an outstanding leader in the U.S. Senate, serve as chairman of the Senate Committee on Agriculture, Nutrition, and Forestry. Your dedicated leadership and personal commitment to helping solve man's most basic needs of food, clothing, and shelter is deeply appreciated by all Americans. No country in the history of the world has ever been strong for long that had a weak agriculture base. America will stay strong because you love America, and you appreciate the importance of agriculture.

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[1] See p. 577 for the prepared statement of Senator Domenici.

We want to thank you for your leadership in drafting the 1981 farm bill. That legislation has served all segments of the peanut industry and the consumers of peanut products well. We do appreciate your continuing support, by your recent actions, in keeping a workable peanut program.

We have personally surveyed peanut growers in our State's 15 largest peanut-producing counties concerning their insight into future peanut legislation. Their response at these peanut county meetings was an overwhelming 98 percent in favor of continuing a poundage quota price support program. Why? Because the present legislation works. This supply-management program has provided a continuous and dependable supply of high-quality peanuts at reasonable price to consumers and little cost to the Federal Treasury, while providing an opportunity for growers, shellers, and manufacturers of peanut products to make a fair return on their investment.

The two-price system, using quota peanuts in the domestic market and additional peanuts, primarily in the export market, has worked well, and we recommend its continued use.

The United States presently exports about 25 percent of our peanut production and supplies 50 percent of the world's edible peanut trade. This accomplishment has helped our Nation's balance of trade, while removing costly surpluses from the market.

The administration's proposed peanut legislation for the 1985 farm bill is a disaster. It would break many peanut growers, dislocate production, shelling and processing, and result in boom-and-bust supply cycles with a greatly increased cost to the Federal Treasury.

Mr. Chairman, the North Carolina Peanut Growers Association supports the position of the National Peanut Growers Group, a federation of peanut grower organizations representing growers in Virginia, North Carolina, South Carolina, Georgia, Alabama, Florida, Oklahoma, Texas, and New Mexico. James Earl Mobley serves as chairman of the National Peanut Growers Group, and he will offer our official legislative position.

On behalf of the peanut growers of North Carolina, I want to thank you and the distinguished members of the committee for giving us an opportunity to appear before you.

Thank you.

Senator HEFLIN. Mr. Mobley, we are delighted to have you here with us.

STATEMENT OF JAMES EARL MOBLEY, PRESIDENT, ALABAMA PEANUT PRODUCERS ASSOCIATION, AND CHAIRMAN, NATIONAL PEANUT GROWERS GROUP, ACCOMPANIED BY RUSSELL SCHOOLS AND ROSS WILSON

Mr. MOBLEY. Thank you, Mr. Chairman.

We appreciate the opportunity to be here. I am, of course, James Earl Mobley, a peanut farmer from Alabama and president of the

Alabama Peanut Producers Association; also, chairman of the National Peanut Growers Group.

Seated with me, on my left, is Russell Schools of the Virginia area. He is actually from Virginia, and he is vice chairman of our group. Also accompanying me is Ross Wilson, from the Southwest, actually, from Texas, our secretary-treasurer.

The National Peanut Grower Group is a federation of 12 State and regional producer organizations, representing a vast majority of the Nation's 57,080 peanut farms. The Peanut Belt stretches from northern Virginia to eastern New Mexico.

The National Peanut Growers Group has developed a consensus position regarding new peanut legislation. We are submitting a formal statement of this position for inclusion in the hearing record, which I will summarize.[1]

Mr. Chairman, we have studied the administration's legislative proposal which has been submitted to the Congress. It is our considered opinion that the proposal is poorly conceived and totally destructive to the system of production, inspection and marketing and processing of peanuts in this Nation. We also contend that the proposal would adversely affect the consumer.

The administration proposal would drastically reduce farm income and pose a further serious threat to the thousands of family farms from Virginia to New Mexico; disrupt orderly production and create boom and bust cycles in the domestic edible peanut production; result in erratic supplies of peanuts with the potential for widely fluctuating prices; basically, increase program costs in the short term.

According to the Department estimates, the first-year program costs would be in excess of $75 million—enough to maintain the current program for 15 years at the present cost levels today. It would undermine the rigid quality control program which is built into the system.

Mr. Chairman, I would like to expand briefly on the impact that the administration proposal would have on consumers. It has been alleged that the elimination of the current program would result in a lower retail price for peanut products. This is based on the assumption that lower farm prices will translate into lower consumer prices. Historically, this has not been proved to be true. Since 1977, the support price for domestic edible peanuts has increased only 28 percent. Over the same period, the retail price of peanut butter has increased at a rate of 2½ times faster. Program detractors are quick to suggest lower farm prices will result in reduced retail prices. My question to the program detractors is: How much?

Mr. Chairman, peanut growers from across the belt strongly support the continuation of the existing two-tier peanut program with minor modification. We contend that this program is unique in legislation. It has performed precisely as its authors intended. This is a masterful blend of supply-management and market orientation which has achieved the following results: Reduce Government program costs to one-tenth of 1 percent of all major farm commodity costs to CCC from 1977 to 1983; it provides consumers with a plentiful supply of high-quality edible peanuts at reasonable prices; it maintains stability of the family farmer by assuring him fair and stable prices on that part of production purchased from the domestic edible market. It increased U.S. export sales each year since the passage of the 1981 Agriculture and Food Act, and has made this country the world leader in the export of edible peanuts. It suspended acreage allotments and opened peanut production to all farmers.

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[1] See p. 579 for prepared statement of Mr. Mobley.

Mr. Chairman, peanuts are a commodity which must be grown, harvested, stored, and marketed as a perishable product for human consumption. The present peanut law is designed to accommodate the unique characteristics of peanuts.

We do not feel that all commodity programs must be cut in the same mold as the administration bill proposes.

The National Peanut Growers Group in a series of meetings over the past several months has developed changes which we feel will substantially improve the program for farmers and consumers alike. Our several recommendations have been submitted to staff.

The major changes we recommend are: Increase the national poundage quote from 1.1 million tons to 1.3 million tons, which is the current domestic edible consumption for the United States; and further, that in subsequent years, the national poundage quota shall be adjusted to meet anticipated domestic edible consumption above 1.3 million tons. Also, replace the current formula which adjusts the quota support rate, based on the cost of production, to a formula which allows adjustment based on a 3-year moving average of domestic edible prices.

We recommend no changes in the method of determining the loan rate for additional peanuts at a level which will incur no cost to CCC and allows additional peanuts for excess to world market; allow all farmers who have produced peanuts 2 of the last 3 years to share equally in the proposed increase in poundage quota.

Mr. Chairman, several other recommendations which are essentially fine tuning and technical, are included in the written testimony, and in other recommendations submitted to staff.

In conclusion, the National Peanut Grower Group respectfully submits that the current peanut program, with minor modifications, provides farmers a fair and workable program, which costs the U.S. Government less than one-tenth of 1 percent of CCC expenditures; assures the Nation's consumers a reliable supply of wholesome, nutritious peanuts at a reasonable cost, and has successfully provided entry of American edible peanuts into the world market under the most difficult of economic circumstances.

Mr. Chairman, we appreciate being here, and we would be glad to answer any questions. Mr. Wilson, from Texas, and Mr. Schools, from Virginia, are here to assist me.

Senator HEFLIN. Mr. Wilson or Mr. Schools, do you wish to make a statement, too?

Mr. WILSON. Not at this time.

Senator HEFLIN. All right. We appreciate it.

Mr. Chairman, would you like to question?

The CHAIRMAN. No questions.

Senator HEFLIN. I have several questions.

You mentioned the cost, and looking from 1981 to the present time, could you give us the per year cost. It is my understanding, that in 1981 the entire peanut program expenditures of Government funds was $1 million. Is that a correct figure, and could you give us the figures for 1983, 1982, and 1981.

Mr. Wilson. Senator, you would be close on the 1981 figure. In 1982, the program cost in the neighborhood of $4 million. In 1983, because of the deposits in the Federal Treasury accruing from association sales, I think the cost may have washed out. In 1984, in discussions with association managers and Department of Agriculture personnel who administer the program, we feel that costs, again, for the 1984 crop are going to be very low—below $5 million.

Senator Heflin. I know that Senator Helms, in presenting the 1981 peanut program to the floor, emphasized the fact that it would be a program which would bring about a substantial reduction of cost to the Government, and I think that these figures and the figures contained in your testimony, Mr. Mobley, indicate that Senator Helms was eminently correct relative to the reduction of cost to the Government on the peanut program.

The Chairman. If the chairman would yield, would that all farm programs worked as well as this one.

Senator Heflin. In 1981 in the farm bill, the peanut title was designed to accomplish four goals: No. 1, to protect farm income; No. 2, provide an adequate supply of edible peanuts at a reasonable price; No. 3, to minimize Government cost; and No. 4, to encourage peanut exports.

Mr. Mobley, or any of you who are here, in your opinion, did the 1981 farm bill accomplish these goals?

Mr. Mobley. In my opinion, it did, Senator Heflin. We look across the great breadbasket of this Nation and say that these farmers are going broke on the feedgrains and on wheat, and also out in the Cotton Belt. We find those detractors from the program saying, "You are making too much money, you are making too much money."

Well, certainly, I would submit any peanut farmer's financial statement against this multi-billion-dollar corporations and challenge them that they are making many, many, many more percentage points' profit than what we are making in the peanuts.

Of course, we are showing a little profit. I would not be surprised if we weren't the only ones who have been able to keep our heads above water at this time.

Senator Heflin. There have been statements that the U.S. peanut product prices are at least 10 percent above those that would prevail under free market conditions if the program continues. Now, I do not know how, actually, somebody can do all of this projection into the future, but the detractors of the program are saying that in effect, if you had free market conditions, no price supports, in effect, that products could sell for 10 percent below what prevails today.

Do you have any comment on that?

Mr. Mobley. This could create a boom and bust type of supply of peanuts. Actually, I believe in the long run, the farmers would go broke, and the consumers would fare a lot worse, because we have people making statements like we were lucky to get the price of the product down, to help out with the packaging and transportation, and things like this. We feel like we must have the farmer—to go into a supply-management-type program is, in my opinion, the best way to go.

Mr. **Wilson**. Senator, I would like to add to that. We met with peanut product manufacturers. The National Growers Group initiated meetings with that group throughout 1983, and the early part of last year to try to reach an accommodation on the peanut program approach. During those discussions, we talked about the influence of the farm price, the price for our products, and the manufacturers advised us more than once that they could not assure us that, were farm prices lowered, there would be any such reflection of that lowering in the retail value of their products.

I think the numbers that Mr. Mobley has given this morning that, while farm prices increased 28 percent in the last 7 years, the retail product price, at least, of peanut butter, increased 71 percent; candy has increased 56 percent. So there are factors other than the price of peanuts which have heavily influenced the price of peanut products.

I think we are way down on the list of farm prices; it is low in priority.

Senator **Heflin**. Well, under a proposal that has come forward in the legislation that has been offered by the administration, the support price or loan rate would be set in the neighborhood of $360 per ton, or 18 cents a pound, and this reduction from the present loan rate of $550 would be about a 35-percent drop. I understand that in most of—well, peanut butter and otherwise—that the actual peanut cost is a sizable portion. I do not know if, in your discussions, did any of them indicate that if they did not make a corresponding reduction in price, that they would be willing to have a peanuts windfall profit tax?

Mr. **Mobley**. In my opinion, if the producer gave them the peanuts, you would not see an appreciable reduction in the consumer product.

Senator **Heflin**. Now, some of the detractors have stated that a subsidy of approximately $250,000 annually goes to 12 or more quota-holders, which would indicate those that have got around 1,000 acres or more. Do you have any reply to this position?

Mr. **Wilson**. Senator, we do not apologize for the fact that some peanut growers are making money. That is the purpose of the quota program. Peanut growers have been willing to sacrifice and reduce production in order to bring some order into the marketing scheme and to get a fair return for their production.

I think you blow it way out of proportion when you say that 12 farmers, and use an example like this. That would be less, probably, than 1 percent of the total production in the United States represented by these people. But maybe these 12 farmers can drive automobiles like some of our big, multimillion-dollar manufacturers drive, if this really is true. But I do not think this represents the farmer up and down the main street of Dothan, AL.

Senator **Heflin**. They might qualify to become a member of the present Department of Agriculture secretarial staff. [Laughter.]

What is the average size of the average peanut farmer? How many acres of peanuts does the average peanut farmer farm?

Mr. **Schools**. Mr. Chairman, I will handle that one from Virginia. It varies according to State. In Virginia, we have about 100,000 acres, and we have 4,000 peanut producers. We work out to about 25 acres of peanuts per farm. I think for the country as a whole, it is slightly higher than that. But it would be somewhere between 25 and 50 acres for the entire country.

Mr. **Mobley**. I think it would average about 30 acres across all three belts, Senator.

Senator **Heflin**. Some of the detractors have stated that the profit margin for the average quota-holder is 44 to 73 percent above current production costs, and 76 to 93 percent above cost in the free market, and the quota and the price support restrictions inflate growing costs by 3 to 4 cents per pound.

Would you want to comment on that?

Mr. **Mobley**. The main thing, as I look at it—and I will have to go from a farmer's standpoint, of course—we have highly specialized machinery to handle the farming end of it, and if we did not combine a lot of farms—and my three sons and I farm, and pardon the personal reference—but if we were not able to get out and lease other farms, we could not produce peanuts. You have to have more than 100 tons of quota to be an economical operating unit per man. We go out and lease other farms' quota in order to survive.

Mr. **Schools**. Senator, let me handle that one from the State of Virginia. I have the figures with me, prepared by the land-grant university on the cost of producing peanuts for 1985.

To produce an acre of peanuts in Virginia, excluding any costs for land, the cost in 1985 will be $666 per acre. Our yield last year was slightly over 2,700 pounds. If you take a look at that figure, that cost was 25 cents per pound of the peanuts produced in the State of Virginia last year.

We do not understand where these who have proposed that we can grow them so cheaply come up with their figures. The figures I just gave you were prepared by Virginia Polytechnic Institute and State University.

Senator **Heflin**. That figure does not include the cost of land?

Mr. **Schools**. Not one penny, sir.

Senator **Heflin**. If you included the cost of land in that, then you are almost losing money.

Mr. **Schools**. I have many who are losing, Senator, and I have many of them who are on the fence. It is very, very close, the profit level, very close.

Senator **Heflin**. Well, you know, we have had traditional concepts of figuring land. I think this summer, the Economic Research Service changed its formula—some people think preparatory for writing this bill. But the traditional formula that had been used over a great number of years, and the land-grant colleges throughout the country would indicate that you get into the neighborhood of around 24 to 25 cents a pound if you include land across the entire peanut belt.

Mr. Wilson, do you have any comment pertaining to this, or what other land-grant universities or other——

Mr. **Wilson**. Yes, sir; along that line, the growers discovered and were very surprised and shocked about 16 months ago to learn that the Department of Agriculture's Economic Research Service had changed the format for computing peanut production costs. They had numbers well above 25 cents per pound—$500 per ton—prior to that time, and under the new format, they were grossly reduced about $100 per ton, because the major adjustments were principally in the way they computed land costs and management costs.

Looking at the Department numbers even today under the current new format, it is $450 per ton, without the former major adjustments in land and management.

So I am at a loss to know where some of these figures——

Senator HEFLIN. Well, if there were adjustments for land costs and other things, would that raise it up over $500?

Mr. WILSON. Yes, sir; I think it would.

Senator HEFLIN. Another criticism made by some of the detractors of the program is that net return to the average quota-holder is 4 to 20 times greater than returns available to growers of the next-best alternate crops.

Mr. MOBLEY. Yes, sir; that is right, but those other crops, if you look, every one of them are below production costs; every major crop today is below production cost, including—when we talk about them, we talk about the averages—soybeans, corn, wheat, and cotton—it is all below the cost of production. Peanuts are getting close to where we are now.

As you know, peanuts are basically—we had a little increase on account of the cost of production this time, but it was a very minor cost, less than half a percent per pound. It just bothers me to the point that the people who are putting out these figures about how much the peanut farmer is making are not down, talking to the bankers and the supply merchants and to the farmers themselves, and let them present their financial statement and their tax returns and whatnot, so they can get the facts of the thing, Senator.

Senator HEFLIN. Well, now, they vary from 4 to 20 times. It seems to me that you would have a mighty broad bracket, my goodness, in regards to what they are stating relative to 4 to 20 times. They must have had something that, all of a sudden, something happened to an acre of land to get something like that. I can hardly understand that broad bracket that they are using from 4 to 20 times.

Mr. MOBLEY. The ones that are making high profits must have a small manufacturing plant somewhere out there.

Senator HEFLIN. Do you think it is coming from somewhere other than peanuts?

Mr. MOBLEY. It is not coming from farming peanuts. I have been there all my life; I know.

Senator HEFLIN. Well, on this issue of alternate crops, really, you have got two elements in the peanuts. You have got salted peanuts, and you have peanuts that are used in edible peanuts, candy peanuts, and then you have got, in effect, the oil and the meal peanuts. Two different types of peanuts, and a lot of people do not understand these.

But really, the competitors, the alternate crops that you would be talking about would be pecans, cashews, almonds, walnuts, and other nuts of this sort. I just wondered, on the basis of the edible types, where they are the competitors, how peanuts rank with those types of competitors.

Mr. SUGG. Mr. Chairman, I would like to respond. Much of the criticism we are getting is written by people that never saw peanuts growing.

We are dealing with a unique botanical crop. It is a legume. It only grows about 12 inchs high; it is decumbent, which means it spreads out and grows low to the soil. It is subjected to roughly 150 days of all environmental problems. It grows basically in sandy soil, because the fruit develops underground. You cannot grow it in clays or hard compact soils. It must keep the leaves on the plant until harvest. If the leaves fall off prior to harvest, the peanuts sluff off, and you cannot harvest the nuts. It is subjected to nematodes, disease, insects, grass, weeds, everything hostile. It is subject to high and low temperatures, high humidity, and low humidity.

The reason the peanut plant is expensive to produce is the fact that it is in the fields for a long time, subjected to a lot of environmental concerns, and almost every kind of disease organism attacks the peanut-growing area.

There are a few spots where peanuts have grown just for a few years. Those areas have a rather low production cost at the present time, but give them a few more years, and you will have the same types of diseases, insects, grass, and weeds infesting those areas, too.

I am saying basically, the peanut is a legume; it grows for a long period of time. Uniquely, the fruit develops underground. It does require a great deal of investment to protect that crop and to harvest the crop by specialized machinery, wagons, drying sheds, and all. That is the reason you cannot compare peanuts to corn, soybeans, and wheat. They are a much more simple crop to grow, with much less infestations and environmental problems.

Senator **Heflin**. Well, on a comparison basis to other crops, if you were to take the price of peanuts, the additional peanuts which go into the oil and seed, and compare them with the crops that go into oil and meal, such as soybeans and other types of crops, what is the comparison between those markets? I realize you have basically two markets, you have really got another type that deals with almonds, walnuts, and pecans and things of this sort; you have got two products.

Mr. Wilson, how would you fare relative to competition with soybeans?

Mr. **Wilson**. Well, I think, as you have stated, we have two distinct markets. We are interested in producing a high-quality food product, and our prices in the competing markets, going back to your previous question with the cashews, almonds, and the other nuts, of course, is considerably below the price of those nuts in the food market. We are not interested in competing with soybeans in the oil and meal market. We think that is another complex. It provides an orderly system for us, the oil market does, in getting rid of peanuts, peanuts that are perhaps not eligible for some reason for the domestic edible market. But we do indeed have two markets, with a wide disparity of prices and a wide disparity of uses, and our objective is to provide a program, a quota program, that will permit the farmer to stay on the farm and stay out of the boom and bust cycle, and to have an orderly process to get rid of those peanuts which, for some reason, we are not able to get in the domestic market.

Mr. **Schools**. If I may expand just a little, Senator, that second alternative is there. The 1981 bill gave anyone in the United States the right to grow peanuts for this lower market, if they so wished. If they feel that they can compete in the export oil market, the opportunity is there. The support level, as you know, on that particular group of peanuts is so low that there will be no cost incurred to the U.S. Treasury. It has been used by some for the export and possibly the oil market, at no cost to the Treasury, and because this was allowable under the 1981 bill. We think it is a good feature.

Mr. WILSON. It also has the flexibility to use, those peanuts as a backup for reserve supply on the domestic market and also to have an assurance of supply on the export market. The two-price system, in effect, Senator, is achieving both goals, at no cost to the taxpayer.

Senator HEFLIN. Senator McConnell was here. He has stepped out, and if he comes back, I wanted to give him an opportunity to ask any questions if he wanted to.

Now, the proposal of having a target price for peanuts that has come up—would you give us your thoughts on what this would do?

Mr. WILSON. The specific program that the administration is proposing, Senator, I think would be not a 5- or 6-year phaseout, but an immediate phaseout. They propose to have deficiency payments representing the difference between the established price and the season average market price. But their projections show that those deficiency payments would only be paid the first year and possibly, some carryover into the second year, at a total cost of about $75 to $78 million to the taxpayers. Of course, that cost would carry the program that we are under now for a long while, assuming that we stay somewhere above but near the zero cost level.

It, of course, would put us in a free market atmosphere. You would have serious questions as to whether you can maintain a quality program under this type of an arrangement, and I think quality is the name of the game now. It has enabled us to expand our markets domestically and to build our markets even with the 1980 crop disaster, to come back and build our markets in a very constructive way in countries abroad.

So I think simply it is a phaseout, a killing of this program under the name of a target price, which we disagree with. We say that it is really a 1-year transition to an open-end program, which would be a disaster for our industry—not only for the peanut growers and the stability which it provides in hundreds of communities across the South. It enables the financing of a crop for the grower and the seller, and it assures a supply to the consumer which does not increase price; I think we have shown that at the retail level.

So you are gambling with all of these things, and we do not think it is much of a gamble. We think it is going to be a total loss for every party involved. So we see no merit whatever to that kind of an approach.

Senator HEFLIN. Well, the administration's bill from a cost basis, what would it cost the Government? I think most Senators are interested in trying to save and get farm programs down to where they cost as little as possible, and the peanut program has achieved this.

But under this proposed administration bill, with target prices and with a one-price loan rate or support price, what would be the effect of the cost on such a program?

Mr. **Mobley**. It takes real simple arithmetic to run this down right quick, Senator. As you say, it costs $75 to $78 million the first year, being 1986, and this, according to the figures for the last 4 years average per year, we would be running from 12 to 15 years with that type of cost. So really, if it is dollars and cents, I am surprised that OMB came out with that type of program.

Mr. **Wilson**. Senator, there is a possibility for other losses in this program. They are setting up a loan price of $250. That would be for all peanuts. Of course, now, you have a loan price on domestic peanuts, but you have a quota to control the cost. Where you cannot control the cost, you simply lower the price of the additional peanuts, the loan rate to the market-clearing level, so that you assure no cost.

The Department is proposing a loan rate of $250 under its bill, and I think there is a very real risk in this that when the domestic market fills up, when the loan warehouses, the loan capacities are filled with these $250 peanuts we have seen in the oil and meal markets in the last year or two, there would be considerable cost in that phase of the program.

So I think it is a real risk, and poses much danger from the standpoint of cost.

Senator **Heflin**. I have heard some people analyze the administration proposal and say that it would create for peanuts a dairy program, comparing the fact that peanuts are perishable. Milk, of course, is very perishable, and you have to move immediately with it. With the type of things there, I just wondered if any of you have any thoughts on whether there is a danger which—the milk program, of course, has proven to be extremely expensive, one of the most expensive of any of the farm programs. To convert a program that costs the Government practically nothing into a potentially terribly expensive program, I just—is there any comparison between, say, the potential of it becoming a dairy type of a program?

Mr. **Wilson**. I think there is a comparison in the fact that both commodities are perishable. Peanuts, of course, can stay in dry storage for less than a year, with any success at all. Beyond that, you have got to shell them and put them in cold storage. If you build up stocks, Government stocks, for this kind of program, and start shelling those stocks and putting them into cold storage or start trying to carry over former stock peanuts in dry storage, you are indeed looking at tremendous costs being injected into the program.

So I think to that degree, there would be a comparison.

Senator **Heflin**. Well, thank you, gentlemen, for your testimony. Senator McConnell has not yet returned. We will insert his statement in the record.[1]

Our next panel is Jimmy Curry, secretary-treasurer, Georgia Peanut Producers Association, Shellman, GA; Robert L. Nash, president, Georgia Farm Bureau, representing the American Farm Bureau Federation; Evans Plowden, general counsel, Southeastern Peanut Association, Albany, GA; and J.O. Jackson, president, Western Peanut Growers' Association, Seminole, TX.

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[1] See p. 576 for the prepared statement of Senator McConnell.

Please proceed, Mr. Curry.

STATEMENT OF JIMMY CURRY, SECRETARY-TREASURER, GEORGIA PEANUT PRODUCERS ASSOCIATION, SHELLMAN, GA

Mr. CURRY. Mr. Chairman, thank you.

My name is Jimmy Curry. I am a peanut producer from Randolph County, GA. I also serve as the secretary-treasurer of the Georgia Peanut Producers Association.

With your permission, Senator, I would like to ask that you enter this entire testimony into the record.[1]

Senator HEFLIN. Each of your prepared statements will be entered into the record as a part of the proceedings today, and we would appreciate it if you would summarize.

Mr. CURRY. Thank you.

We realize that we are only a very small part of this Nation's agricultural population and that, as farmers, we are in the minority.

There are 2.4 million farmers in contrast to 10.3 million welfare recipients, and 20 million food stamp recipients.

Therefore, Mr. Chairman, as spokesman for the Georgia Peanut Producers Association, we are grateful to you and the other members of this subcommittee for inviting us to testify on behalf of the peanut program.

Today, we want to address several points that we feel should be considered during the deliberations of this committee.

Mr. Chairman, the peanut producers in Georgia, as well as the producers in the other major peanut producing areas, have a record of over 12 years in working with previous administrations, the Congress, and in particular, the House Tobacco and Peanut Subcommittee, in a cooperative manner in addressing past problems in the peanut program.

Together, we found solutions to correct those problems. We have sincerely and earnestly cooperated to the fullest with the end-users, the handlers, and other segments of the industry to fashion a program which now serves the best interests of all parties, and in particular, the American consumer.

Beginning in the early 1970's, a trend developed in the Southeast wherein producers began planting a new variety of peanut, the Florunner. In most cases, the runner variety of peanuts greatly increased the yields over the previous varieties. This excessive yield spelled trouble because, under the old law, the Department of Agriculture had to purchase all peanuts under a one-price system based on 75 percent of parity.

During 1974 and 1975, the Commodity Credit Corporation had as many as 600,000 tons of runner peanuts in surplus and, because of the provisions of the old law, these had to be crushed to make room for the new crop. This created an unacceptable and unreasonable cost to the American taxpayer.

The producers in Georgia realized the potential damage that could be done to the continuation of such a peanut program.

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[1] See p. 583 for the prepared statement of Mr. Curry.

Negotiations were held with producers from the other regions, and the 1977 farm bill reflected the needed changes in the program.

Most of the problems with the program were corrected. The producers agreed to major modifications in the program, instituting poundage quotas, establishing a two-price system, and reducing domestic quotas over a 4-year period to reflect more accurately the domestic requirements. The result was dramatic reduction in the cost of the program and the potential for greater sales of peanuts overseas. The producers in this country willingly and in good faith cooperated to change drastically the program for the first time since its inception in 1938.

We have now reached the point where the program is working at its best. It has been termed a model of success. The Department of Agriculture has a group of dedicated men and women who are administering the program in a fair and equitable manner and in the best interests of the country. The program now allows for the production of an adequate amount of quality peanuts to expand our export market while at the same time, supplying our domestic requirements.

It has specific options to protect the end-users in case there is a shortage in the domestic quota supply. These options were utilized to a high degree last year, especially the buy-back provisions. Most important, however, from a producer standpoint, the present program allows the actual producer to make a decent return on his large investment.

With agriculture experiencing its most serious economic crisis since the Depression, this return is life-saving in the case of most peanut producers. Thankfully, peanuts can still be used as collateral with lending institutions in the South.

So, the present peanut program is providing an adequate supply of quality peanuts to the domestic and export markets.

A case in point was the drought experienced in 1980. It was very obvious that not enough peanuts would be available to supply our domestic requirements. The end-users requested that the import levels for peanuts be raised to 300 million pounds. The producers in Georgia could have fought this request through the International Trade Commission, but did not. We knew that it would bring foreign peanuts into this country and also open the door for other peanut-producing nations to move on our foreign markets. But we agreed to support the request, and the end-users were able to keep their production lines running through a simple administrative adjustment.

In conclusion, Mr. Chairman, and members of this committee, we ask you to consider these things in your future deliberations, in your negotiations with colleagues, and in your recommendations to the Congress.

The peanut program is not a contributing factor to the enormous deficit our Nation faces. Peanuts cannot be lumped into the same category as wheat, corn, or soybeans. The present peanut program provides consumers with a quality product at reasonable prices and is becoming an increasingly important part of our export trade. The program operates at virtually no cost to the taxpayers of America. At the same time, it is a program that undergirds and supports the economic stability of thousands of farm families and agribusiness industries.

Mr. Chairman, we thank you for allowing us to speak up for the peanut producers of Georgia, and we would be pleased to answer any questions you may have.

Senator HEFLIN. Thank you.

Mr. Nash.

STATEMENT OF ROBERT L. NASH, PRESIDENT, GEORGIA FARM BUREAU, REPRESENTING AMERICAN FARM BUREAU FEDERATION

Mr. NASH. Mr. Chairman, I am Robert Nash, president of the Georgia Farm Bureau, and we will be presenting a statement here on behalf of the American Farm Bureau Federation, which is based on the policy that was passed by not just peanut growers, but farmers throughout this country, that they felt like this was a good program and one that they backed this policy.

I would like to say that we certainly appreciate our two Senators, Senators Nunn and Mattingly from Georgia, concurring with this position in the fact that they do believe the program is working, and it is a justified program.

So I would like to present this statement on behalf of the American Farm Bureau Federation.

We appreciate the opportunity to appear before the Senate Agriculture Committee regarding the Farm Bureau's position on the farm programs for peanuts and our proposals for legislative changes in the 1985 farm bill.

Farm Bureau policy is debated, amended, and revised by voting delegates from each of our member States. At our 66th annual meeting in January, our delegates adopted policies regarding farm programs in general and policies specific to the peanut program. Our general farm program policy on peanuts states: "We support continuation of the present peanut program. The peanut program should be effectively administered. We support the efforts of growers and of USDA to develop expanded export markets for peanuts."

The peanut policy that I have referred to fits within the broad framework of Farm Bureau's policy objectives. These objectives include improving the net farm income; allowing producers to take maximum advantage of market opportunities at home and abroad and limiting Government expenditures.

The policy would best offer prosperity to U.S. agriculture would be a commitment to fiscal responsibility and reducing overall Federal spending in order to get interest rates down, currency exchange rates in line, and exports back into the world market. We therefore continue to support a freeze on Government spending at the 1985 levels.

The American Farm Bureau believes that the present peanut program has served the interests of U.S. peanut producers and the industry as a whole. The current peanut program has resulted in stable markets for peanut producers, a reasonable and healthy supply and demand relationship, and continued strength of U.S. peanut exports in the world market. U.S. consumers are assured of high-quality edible peanuts. These accomplishments have been achieved at little Government cost since this program was put into effect in 1981.

Annual costs recently have been around $5 million. Compared to the sharp cost increases of other commodity programs, that have not been nearly as effective in assisting the industry, these costs are negligible.

Our peanut producers have recommended certain changes in the current peanut program under the 1985 farm bill:

No. 1, the quota peanut support prices. We recommend that the minimum support price for quota peanuts in 1986 be maintained at the $559 per ton level. We believe that the current method of determining the quota support price based upon the cost of production estimates should be revised. We propose that the support rate for quota peanuts be modified to reflect the average percentage change in the index of prices paid by farmers for production items, interest, taxes, wage rates, for the previous year compared to the year earlier.

No. 2, the national poundage quota. We also believe that the national poundage quota should be established at a level of the previous 3-year average of domestic edible and seed use. In order to avoid abrupt changes in the poundage quota, the Secretary would be given discretionary authority to further modify the quota by up to 5 percent if supply and demand projections justify such a modification.

These changes will revise the program so that it operates in accordance with market signals related to demand and producer costs. Some of the discretion to manipulate the support mechanisms is thereby eliminated from the peanut program. The program would be greatly improved by adopting these revisions.

Other than these changes, we strongly support retention of the current program. The industry has operated efficiently under this type of program, and we therefore believe that it should be continued to serve the needs of the producers, consumers, and export customers.

We believe that all of agriculture will be better served by increased efforts in the area of export trade expansion. Agriculture must maintain competitiveness in the world market in order to sustain its viability.

The proposal developed by the American Farm Bureau Federation includes a greatly expanded trade section. Included in the efforts would be funding for the CCC Export Credit Revolving Fund, intermediate credit programs, increased Public Law 480 funding, and a bonus export program. Through these efforts, peanut producers and all of agriculture will realize improved commodity prices, and net farm income will be increased.

Mr. Chairman, I want to thank you and your committee for the opportunity to present the American Farm Bureau's position on the peanut program. Farm Bureau will work closely with the Senate Agriculture Committee in developing a sound and fiscally responsible farm bill.

Thank you very much.

Senator HEFLIN. Mr. Plowden.

STATEMENT OF EVANS J. PLOWDEN, JR., GENERAL COUNSEL, SOUTHEASTERN PEANUT ASSOCIATION, ALBANY, GA, ACCOMPANIED BY LEWIE HELMS AND JOHN ANDERSON

Mr. PLOWDEN. Mr. Chairman, I am Evans Plowden, and I am general counsel for the Southeastern Peanut Association, which is an association of shellers and crushers, all the shellers and crushers who have operations in the States of Florida, Georgia, and Alabama.

We appreciate this opportunity to be here.

Traditionally, our association has supported the peanut growers in connection with legislation affecting the peanut industry. We continue to support the American peanut grower with respect to the basics of peanut legislation.

Over the years, peanut legislation has included some provisions which relate to the handling of peanuts after they are produced and sold by the grower. It is with respect to those provisions of any legislation that we direct our particular attention.

With regard to those areas, we have been, and are continuing to conduct an ongoing dialog with peanut growers throughout the United States in an effort to reach a consensus as well as a dialog with our shelling and crushing counterparts in the Virginia-Carolina area, and the southwest area. It is our desire to work together with growers and other shellers so that legislation may be enacted that provides for a healthy domestic peanut industry, as well as continuing the United States as a dynamic force in the international export market.

Our association's position can be summarized as follows. We recognize that it is desirable that the United States have some type of peanut program that provides stability for the industry and that a two-priced system is probably the most practical and feasible under the circumstances that exist today.

We support legislation providing for a price support system that will have the effect of assuring an adequate supply for the peanut market at acceptable income levels for American producers accompanied by minimal or no cost to the American taxpayer.

We believe that a loophole exists in the present legislation as it relates to buybacks, and we are diligently consulting with other interested parties to resolve that particular problem.

Since the creation of the legal category of additional peanuts and the two-priced system, physical supervision has been required in order to assure that additional peanuts were not improperly introduced into the domestic market. While all parties interested in the peanut industry recognize that legitimate requirement of additional peanuts being prevented from entering the domestic market, the present physical supervision procedures are unnecessarily burdensome and costly to peanut handlers, and therefore ultimately to peanut consumers and consequently, the entire peanut industry, especially growers.

It has been reliably estimated that the present physical supervision adds a minimum of $20 per ton to the cost of peanuts. We propose legislation which would virtually eliminate this wasteful cost as well as reducing the amount of paperwork by a substantial degree.

Since we have proposed to the committee specific legislative language on the supervision matter, I have taken the liberty of furnishing the committee with a copy, and I will not go into the details at this hearing.

[The following information was received by the committee:]

Add after first sentence of Title 7 § 1359(i).

Provided, however, with respect to shelled peanuts, Handlers may, in lieu of physical supervision of the handling of additional peanuts, export or crush quantities of peanuts by type determined as follows:

(1) Sound mature kernel peanuts in an amount equal to the pounds of such peanuts purchased by the Handler as additional peanuts;

(2) Sound split kernel peanuts in an amount equal to the pounds of such peanuts purchased by the Handler as additional peanuts;

(3) Other edible quality grade peanuts as defined in "Marketing Agreement for Peanuts (No. 146)" in an amount equal to a quantity determined by multiplying the tons of farmer stock additional peanuts purchased by the average per ton quantity of other edible quality peanuts produced from all farmer stock peanuts purchased by Handler (Quota and Additional);

(4) The remaining quantity of total kernel content purchased as additional peanuts, including loose shelled kernels, shall be exported or crushed domestically.

Evidence of domestic crushing shall be assured by physical supervision and export proof shall be evidenced by on board fills of lading and/or other such appropriate documentation as shall be required by the Secretary. Handler's obligation as described above shall be reduced by a reasonable shrinkage allowance, the amount of which is to be determined by the Secretary. The Secretary may require adequate financial guarantees in order to assure compliance with Handler's obligation. A Commercial surety bond shall be deemed an adequate financial guarantee for purposes of this section.

Mr. PLOWDEN. Under the present legislation, handlers of additional peanuts are required to either export or crush those peanuts. If additional peanuts are exported and later reenter the United States, there is the potential under the present legislation for assessment of a substantial penalty and/or substantial liquidated damages against the handler having the export responsibility.

After exporting, that handler has virtually no control over the movement of the peanuts. Therefore, it is our position that any penalty or any liquidated damages assessed by the Department of Agriculture should be assessed against the person importing those peanuts into the United States and not against the responsible exporting handler.

Under the present legislation, the final date for contracting additional peanuts between producers and handlers is prior to April 15. It is our view that such an arbitrary requirement eliminates the natural market and forces all parties to create an artifical market at a time irrelevant to the actual marketing of peanuts. We favor legislation that would set the final date for contracting at the time of delivery, during harvest, or as a second alternative, no earlier than August 15 of the year of production.

We believe that any legislation should give the Secretary of Agriculture the authority to increase quota production for a particular crop by 5 to 10 percent if the Secretary should determine that such increase was necessary to meet anticipated demand.

We would further strongly oppose any legislation that had the effect of forcing peanuts into the Commodity Credit Corporation Loan Program.

We would also oppose the establishment of a minimum contract price for additional peanuts.

Mr. Chairman, we recognize that there are some differences of opinion in connection with the matters that I have discussed. Please be assured that we have every intention of continuing to work with all interested parties to resolve those differences.

Mr. Chairman, I am accompanied today by Lewie Helms, of Dothan Oil Mill, and John Anderson, of Alabama Farmers Cooperative, who may be of assistance to the committee should the committee have questions in connection with these matters. If the chairman would like those gentlemen to come forward——

Senator HEFLIN. Yes, please come forward. We are delighted to have you.

Mr. PLOWDEN. Again, Mr. Chairman, thank you.

Senator HEFLIN. Mr. Helms or Mr. Anderson, do you wish to add anything at this time?

Mr. HELMS. No, Mr. Chairman. We are here to answer any questions you may have.

Senator HEFLIN. All right, sir.

Mr. Jackson, you are from the Western Peanut Growers Association. Please go ahead.

STATEMENT OF J.O. JACKSON, PRESIDENT, WESTERN PEANUT GROWERS ASSOCIATION, ACCOMPANIED BY LEON FOOTE, DOYLE FINCHER, AND WILLIAM FAIR

Mr. JACKSON. Mr. Chairman, I appreciate the opportunity to appear before you and the committee today. I am accompanied by Leon Foote, Doyle Fincher, and William Fair, from our association, and they may be of assistance if you have any questions.

I am J.O. Jackson, president of the Western Peanut Growers' Association. Mr. Chairman, the Western Peanut Growers' Association appreciates the opportunity to appear before you and your committee at this time to present our recommendations concerning the peanut section of the 1985 farm bill.

The Western Peanut Growers' Association was organized to promote the production, marketing and consumption of peanuts. In addressing the peanut section of a new farm bill, we believe an acceptable program should be workable from a total industry standpoint—growers, agribusiness, shellers, product manufacturers, and most importantly, consumers.

Additionally, we must exercise budget responsibility as American taxpayers. We believe the bill must direct continued market-oriented transitions through effective modifications within the present program framework. Our specific recommendations are based on past experience with the existing program and by injecting foresight into the future.

These recommendations are: No. 1, to maintain the current laws allowing anyone to produce additional peanuts. The movement away from acreage allotments tied to historical land ownership begun by the 1981 farm bill must be continued by insuring the "right to grow" to anyone in the United States desiring to produce for world markets or shortfalls in the quota supply.

No. 2, we recognize the grower's obligation to reduce Federal budget exposure. Therefore, we propose freezing the national poundage quota at 1.1 million tons and reducing the quota support rate 10 percent beginning with the 1986 crop.

No. 3, current laws and regulations directing movement of additional peanuts into domestic markets are absolutely essential in protecting the end-user and ultimately peanut product consumers. The immediate buyback provisions should be left intact in its present form, insuring against quota production shortages.

The area-type pool concept protects against shortages of any particular type peanuts, accommodates expansion in U.S. consumption, provides the supply safety net to protect consumers from extreme price fluctuations, and allows the additional grower dividends to subsidize the quota growers program, resulting in no Federal budget exposure.

No. 4, support the sale and lease of quota poundage across county lines. Producers in some States, such as Arizona, California, Mississippi, Arkansas, Louisiana, and New Mexico, enjoy this privilege while it is denied to others, such as Florida, Georgia, Alabama, Virginia, North Carolina, Oklahoma, and Texas. This prohibition locks production into historical growing areas, resulting in shortfalls in quota production.

For example, three large Texas counties considered leading producers have failed to produce their poundage quota all 3 of the last 3 production years. Existing data, plus 1984 crop estimates, indicate a shortage in excess of 78.7 million pounds. This is not a reflection of grower production ability, but rather, a result of continuous peanut production on the same land for as many as 50 years. Sale or lease across county lines would provide growers the opportunity to relieve their financial stress due to production shortages. Concurrently, new growers in lower cost production areas would be afforded the opportunity and incentive to produce, ensuring the production of all the national poundage quota.

No. 5, eliminate contracting deadlines for additional peanuts for export or crushing. The April 14 deadline constitutes undue governmental interference in marketing. Market-oriented progression should place market decisions on growers, enabling them to compete in world markets based on existing market conditions, without interferences from Government-imposed dealines. We believe in our ability as growers to identify and produce, for whatever markets are available to us.

No. 6, integrate regulatory compliance and CCC price support activity into USDA-ASCS. Combining peanut program administration and price support activity would eliminate bureaucratic duplication and dual interpretation of the law. For example, area grower associations have the sole authority to administer CCC price support activities, but ASCS handles onfarm storage loans and quota controls. Clearly, there are duplicate functions here and elsewhere which can be combined and streamlined.

We also mention one other point. As an organization, we speak for growers whose production is over 90 percent additional peanuts, probably representing the largest concentration of new growers in the Nation who have no quota poundage. We find the power to regulate, control policy, vote on referendums, dispose of loan additional peanuts, and speak on national policies issues is controlled by historical producer representatives who naturally resent the intrusion of new growers. ASCS would prove a more neutral regulatory authority.

In conclusion, we suggest any transition, orderly or otherwise, to a free market concept can only be achieved through gradual changes afforded by law. Our recommendations embody a degree of change in that direction, necessary to develop new growers who lend production efficiency and fresh input to the system. If positive workable solutions cannot be developed within the current program framework, we are prepared to support the administration's proposal for a new peanut program concept.

Thank you.

[The following material was supplied by Mr. Jackson:]

1983 CROP YEAR

Rank and county	Production	Basic quota	Applied undermarketing	+ over, – under
1 Frio	47,630,000	36,133,703	1,213,253	+10,283,044
2 Comanche	46,125,000	50,012,090	8,988,777	–12,875,867
3 Gaines	46,000,000	6,479,741	26,837	+39,493,422
4 Atascosa	39,220,000	31,680,483	1,122,715	+6,416,802
5 Wilson	28,280,000	17,901,921	1,234,971	+9,143,108
6 Eastland	23,265,000	30,976,033	5,307,759	–13,009,792
7 Mason	13,660,000	12,170,901	282,252	+1,206,847
8 Erath	13,370,000	13,093,111	2,213,772	–1,936,883
Total	257,550,000	198,438,983	20,390,326	+42,594,443
Less Gaines County	211,550,000	191,952,242	20,363,489	–765,731

The 39,493,422 lbs. of additional peanuts produced in Gaines County was critical to having enough peanuts from Texas to meet domestic demand. The 1984 crop production in Gaines County will be even more significant.

LEADING COUNTIES IN PEANUT PRODUCTION, 1982

Rank and county	1982 production [1]	Percent of State	Quota	Applied undermarketings	Over	Under
1 Frio	45,540	14.0	36,356,617	1,412,840	7,769,543	
2 Comanche	42,978	13.2	50,160,797	7,045,015		14,227,812
3 Gaines	41,200	12.7	6,909,270	17,653	34,273,077	
4 Atascosa	36,319	11.2	31,501,093	784,747	4,033,160	
5 Eastland	27,658	8.5	31,263,605	4,713,537		8,319,142
6 Wilson	15,657	5.1	18,393,502	352,045		2,088,547
7 Mason	16,100	5.0	12,017,419	23,689	4,058,892	
8 Erath	11,520	3.5	13,291,108	1,723,503		3,494,611
9 Fannin	5,360	1.6				
10 Brown	5,035	1.5				

[1] 1982 production in thousands of pounds.

Senator **Heflin**. Senator Zorinsky, the ranking Democrat on the committee, had to leave, and he asked that his opening statement appear in the record. Without objection, that will be done.[1]

Mr. Nash, there have been some of the detractors of the peanut program saying that farmers want to change. You represent the American Farm Bureau, which basically supports the concepts of the present program, with some fine-tuning.

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[1] See p. 576 for the prepared statement of Senator Zorinsky.

It is my information that a great number of other farm organizations support the concept of the present program, such as the Grange, AAM, the NFO, and WIFE and others, relative to this matter. But in the basic peanut growing areas, generally, the present concepts, with some fine-tuning of course that would be necessary, have they been generally accepted with approval by the farmers?

Mr. **Nash**. Senator Heflin, we believe they have. I think the voting on the referendums, the policy procedures that we use in Farm Bureau, give them the opportunity, even though they are not growers, to express their opposition to programs such as this, and certainly, the peanut program has shown that it is a working program, that is not costing the Government excess dollars, and it is one that is providing the farmers who are producing an opportunity to maybe meet some of their cost demands that other crops do not do, and I think this is very important with the economic conditions that we are seeing throughout peanut-growing areas, that this is essential that we keep this type of program for the peanut producers.

Senator **Heflin**. Mr. Plowden, would you explain a little more in detail the problems being experienced by a handler in regard to physical supervision—and maybe Mr. Helms and Mr. Anderson might want to comment.

Mr. **Plowden**. I am sure they will want to speak to that, but I will make this preliminary statement. As the chairman knows, these two types of peanuts do not come in with different colors on them. The peanut looks like a peanut, regardless of the fact that it is a quota or additional. Consequently, to ensure the export of the additional peanut, it is necessary, under the present regulations, that the supervisory authority have people onsite, which have to be paid for; the mill itself has to be shut down, cleaned up, one type of peanut completely cleaned out, and then begin again with a new type of peanut. And with that statement, I am sure that Mr. Helms will have something further to say.

Mr. **Helms**. We think first off it is because there is a cost of approximately $20 per ton, which is a lot of money on maybe 400,000 tons of additional peanuts that we handle in the Southeast. We are talking about a lot of money. Well, that is a cost that is imposed on us now that we think is absolutely unnecessary. It can be done just as well—or probably, in our opinion, better with a method of paper supervision or offsetting—first, we want to export every pound of peanuts. We want to make sure that every pound of additional peanuts that are purchased for export are exported. But that can be done much easier, and with virtually no cost, with what we call paper supervision, which is the proof of export of those peanuts on one side, backed up by the purchases that we made from the producer on the other. Those are the only two factors we need.

Senator **Heflin**. Mr. Plowden, you suggested the existing buyback provisions and some problems. Would you explain briefly how this provision could result in an increased cost?

Mr. **Plowden**. Well, your honor, if additional peanuts are bought back and put into the domestic market, there is the potential that these additional peanuts will displace quota peanuts, which would in turn be crushed at a cost to the Government.

Senator HEFLIN. That is like going to Canada and buying back—would you explain a little more in detail?

Mr. PLOWDEN. No; your honor—I am used to you as a Supreme Court Justice—Mr. Chairman——

Senator HEFLIN. Well, I hope it gets a little contagious around here. [Laughter.]

Senator MELCHER. Objection. [Laughter.]

Mr. PLOWDEN. You do not have to go to Canada. You can buy the peanuts back in this country within, I believe, it is 72 hours, with the permission of the producer.

I would say to the chairman that John Anderson from the Alabama Farmers Cooperative is an absolute expert in this area, probably more so than I, if the chairman or Senator Melcher wish further information.

Mr. ANDERSON. Sir, our concern is that we do not want to see additional peanuts brought into the domestic market to the point that we displace quota peanuts that would ultimately go into the loan program and end up being crushed for oil, and some $250 to $350 per ton lost to the Federal Government.

There are some ways that this can be done. We are diligently working at the present time to try to get an agreement in this area. It is a potential problem there. It is a loophole. The question would automatically be asked, well, why has it not happened before now. I can only say that the circumstances surrounding the 1984 crop have brought this matter out into the open. It is now a matter of knowledge on the part of all dealing in the industry, and I can assure you under the present system that there are some problems there, and they are very serious problems that we face.

But together, the industry is working together, the shellers and growers together, trying to solve this problem.

Senator HEFLIN. Senator Melcher, would you like to make an opening statement and ask some questions? This is unusual, you know, that we Democrats have got it today.

Senator MELCHER. Thank you, Mr. Chairman. I think it would be wise if we passed the farm bill today. It would be in very good hands. [Laughter.]

Senator MELCHER. I have some questions.

Mr. Plowden, you are the general counsel. Does this represent basically quota peanut growers, or is it some quota and nonquota?

Mr. PLOWDEN. This is an organization of shellers and crushers, Senator Melcher, and there are no growers who are actually members of the Southeastern Peanut Association. These are shellers and crushers of peanuts in Georgia, Florida, and Alabama.

Senator MELCHER. Well, are you shelling and crushing mostly quota or nonquota?

Mr. PLOWDEN. In the Southeastern United States, it is both.

Senator MELCHER. It is both. Do these recommendations fit what the growers want in these three States?

Mr. PLOWDEN. Primarily, Senator Melcher, with respect to the buyback proposals, there is perhaps some difference of opinion that we are working on at this time to try to eliminate. With respect to the growers in our area, we are supportive of their efforts, and we believe they are supportive of ours. I am sure there are those here who could speak for them, and I do not presume to do that. But with respect to the buyback, there is some difference of opinion.

Senator **Melcher**. Mr. Nash, you would probably be in a position to speak for the growers in that area, would you not?

Mr. **Nash**. Senator Melcher, there is a little bit of a problem on the buyback. We feel like one of the solutions to it, if we allow an adjustment, as we have indicated, in quota peanuts, to allow that to represent the use or the need for edible peanuts and seed in the United States in a more flexible way, based on the previous 3 year averages of the need, it will eliminate people having to go into a buyback program to have sufficient quantity of peanuts for domestic use, and that the others will flow into the foreign trade as additionals.

So we believe with this, then, there will allow sufficient production of quota peanuts for domestic use, and it will be based on use and demand rather than being limited. And by spreading that quota over all those people who are involved in the program, then it is equitable, and it does allow opportunities to better serve our consumers in this country.

Senator **Melcher**. J.O., you have got six recommendations?

Mr. **Jackson**. Yes, Senator.

Senator **Melcher**. I assume some of those recommendations mesh with some of the recommendations of the Southeast Growers. Is that correct?

Mr. **Jackson**. That is correct, Senator.

Senator **Melcher**. Please identify which ones.

Mr. **Jackson**. The current laws allowing anyone to produce additional peanuts, we do not see any desire to remove that.

We are proposing to freeze the national poundage quota at 1.1 million tons and reduce the quota support rate.

Senator **Melcher**. That is in opposition.

Mr. **Jackson**. In contrast, yes.

Senator **Melcher**. And on No. 3?

Mr. **Jackson**. We concur with those recommendations of the Southeast, in particular parts of that. In the negotiations that are going on at the present, trying to iron this out, we have additional producers in a position to be adversely affected by their determinations as to whether these additional peanuts can enter the domestic market through the immediate buybacks. We are for the present law as it stands now, and state our reasons why. Their proposal is to increase the quota support rate to 1.3 million tons, so there would be no need for the additional peanuts in the domestic market.

If the quota is increased to 1.3, there is no need for an immediate buyback. But if the quota is increased to 1.3, there is a potential exposure built into the 1.3. I think we have all experienced, once the costs are there, you never get them down without drastic change. I think the overall Federal budget is exposing that concept, so our concept is to leave it at the 1.1 and reduce the support rate 10 percent, and that shows restraint on our part as producers, in trying to protect the program and not let it be exposed to the taxpayers' ridicule.

Senator **Melcher**. What about No. 4?

Mr. JACKSON. The sale and lease of quota across county lines is granted to some States and not to others.

Senator MELCHER. Do Georgia, Florida, and Alabama want this?

Mr. NASH. No, sir. We have opposed that, basically, and the reason for being opposed is that historically, the peanut industry is growing in areas where the soil is more adaptable, and that is where it began, and there is basically where it is going to remain. Much of the clay soils and all, you cannot profitably, even though some people may choose to try to grow them there, well, I can assure you they are not going to be profitably grown in that type of soil. So I think you will find that it helps to maintain a basic economy within a county or an area that could be interrupted by switching the growing areas around and would cause a disruption in the production of peanuts.

Senator MELCHER. J.O., is there any other State, other than Texas, that has a real problem with this? I realize it is a problem you have in Texas, but is it a problem in any other States?

Mr. JACKSON. Well, I am not familiar with the problems of the other States. I am very familiar with the problems in Texas, and our attachment on the back reflects the position that some of the quota-holders find themselves in. In the 1983 crop year, the area that I came from in Gaines County, we had an overproduction of 39,493,000 pounds; we were ranking third there. Our additional peanuts entered the domestic supply lines through the immediate buyback. These are Spanish peanuts. We offset the shortage in production in the second-ranking county, Comanche, with a shortage of 12 million pounds; the sixth-ranking, Eastland County, with a 13-million-pound shortage. No. 8 was Erath County, with a nearly 2-million-pound shortage. This applies to the 1982 crop year and is going to apply to the 1984 crop year.

Senator MELCHER. No. 5 is an identical recommendation, or virtually identical, on changing the date of contract deadline.

Mr. JACKSON. Yes, sir.

Senator MELCHER. Does anybody else have anything to say about this idea of integrating regulatory compliance and CCC price support activities with the ASCS?

Mr. NASH. Well, Senator Melcher, I think any time you can properly handle something by any agency, economics dictate that you should not have two doing the same job, but there are other jobs to be done here with this program, and integrating them together possibly could cause neglect on some people's part to carry out the program as it should be. I think ASCS in many areas have got more than they can handle now, with inexperienced personnel.

Senator MELCHER. Do I understand correctly that the excess peanuts that fall into the hands of the Government are exported—as crushed or oil, is that correct?

Mr. JACKSON. Yes, as additional peanuts.

Senator MELCHER. How about oil?

Mr. NASH. If they are crushed to oil, they are exportable as oil.

Senator MELCHER. All right. The crushing is for the oil.

Does that go to Public Law 480?

Mr. ANDERSON. Senator, I do not believe that peanuts are eligible under Public Law 480, and to my knowledge, there have never been any peanuts exported under Public Law 480.

Senator **Melcher**. Never?

Mr. **Anderson**. Never in recent years. Now, it may have been back in the forties. But I think that was the Marshall plan rather than Public Law 480. But to my knowledge, peanuts have never been exported under Public Law 480, and are not eligible to be exported under Public Law 480.

Senator **Melcher**. What would be the impact if they were eligible?

Mr. **Anderson**. Sir, I think we would export some more.

Senator **Melcher**. How does this compare to soybean oil?

Mr. **Anderson**. Well, sir, very frankly, I do not think anybody in the United States today can raise peanuts for oil per se. The economic factors are such that we just have too much money in peanuts to raise them per se for oil.

What ends up for oil, sir, is the peanuts that are not of edible quality—the smaller ones, the broken ones, I am talking finely broken peanuts—and this primarily is what ends up in the oil through the industry.

But I do not think at the present time, the economics are there at all, and have not been there since I have been in the business to where you could actually raise peanuts for oil.

Senator **Melcher**. Well, I have here something prepared by one of the volunteer organizations—I believe it was CARE.—that has been providing surplus foods to the people in Africa as well as all around the world. What is contained here is the equivalent of 1 cent of wheat, and then 10 grams of soybean oil. I do not know the worth of the 10 grams of oil, but it is 1 cent worth of wheat. That provides 372 calories. It demonstrates the low cost of one meal. A pretty good meal, by the way, that has 372 calories and 25 percent of the protein needs of a person per day.

The oil might be worth 1 cent, 2 cents, or at the most, 3 cents, in one meal for a person, with that much calories and that much protein.

You are always going to have peanuts that are going to be crushed, are you not, every year?

Mr. **Anderson**. Yes, sir, and part of the production each year is peanuts that have to be crushed; part of each ton of peanuts has to be crushed.

Senator **Melcher**. I think it is one opportunity. Perhaps it would be wise if peanut oil were made a part of the eligible foods for our humanitarian donation programs.

Mr. **Nash**. Senator, I think the peanut grower would agree with you, that peanuts are a very high-value product for food, and certainly, many people throughout the world need the protein and all that peanuts would provide.

I think you will find that the reason why they are not in the Public Law 480 program is because of the Government regulations that justify Public Law 480 exports, and they have got to be coming from products that are overproduced and things like that. And certainly, to try to produce peanuts for that program would not work, because the sale of those products is so cheap that the peanut grower could not afford to grow them. I am not sure the wheat farmer and all, without the subsidized programs from the Government, could grow wheat for that market, either. So, I think this is one of the things that keeps peanuts from being part of the Public Law 480 program, even though we would like to see some of them in export, which would increase our exports. But the growers cannot be asked to grow them at that price. It would have to be a subsidized program.

Senator MELCHER. Am I correct that since you always have some that must be crushed, that there is always a lot of peanut oil around?

Mr. HELMS. As a matter of fact, there is a shortage of peanut oil today. Peanut oil is what we consider a specialty oil. It has a known value above the other competing cottonseed or soybean oils, of somewhere near 4 to 6 cents a pound. So there is a value. But outside of the United States, and in some countries in Europe, it is a very preferred oil, but in this country, it is considered a specialty oil. It is a limited supply, and it is a residual of the off-grades from the farm stock—a residual market.

Senator MELCHER. Perhaps it does not fit in that category, then. Thank you very much, for answering that question. You have enlightened me somewhat.

I am sorry to see that we are still facing these disagreements among the growers.

Senator HEFLIN. Relative to the Texas position, Ross Wilson is from Texas, too, and you have, I think, some differences with Mr. Jackson. Would you like to reply to some of those?

Mr. WILSON. Senator, the problem goes beyond Texas. The policy of the National Peanut Growers Group, the matter of transferring across county lines was indeed considered as a possibility and rejected by the National Group, but the problem has not been ignored; the need has not been ignored; the desires of these people in west Texas have not been ignored.

For example, in the bill, we have the provision that if there is indeed an increase in poundage quota from 1.1 million pounds to 1.3, and the 200,000-pound increase would be shared equally by all peanut producers, quota and nonquota, who would qualify by planting the last 2 out of 3 years. There is further a significant development in our legislation which follows on the heels of the 1981 bill which Congress mandated, that peanut production be in the hands of the peanut producers, by saying that you have got to produce the peanut quota 2 out of each 3 years.

The peanut quota which is lost in central Texas—and by Mr. Jackson's own testimony, central Texas has fallen several million pounds under the last 2 years—if, because of financial stress, weather reasons, or whatever, the poundage is lost in that area, the provision in the National Peanut Growers Group proposed language is that that poundage would go back to the State committee, not to the county committee—and that came after long deliberations and a great deal of pleading and struggling—it would go back to the State committee, and these people, of course, would be eligible to share in that.

We think this is a much more orderly way to treat the problem and transfer across county lines than disrupt the tax basis for school districts, hospital districts, and so on, in the traditional peanut-producing areas where peanuts are a real part of the economy. We think there will be a movement that will be dictated by actual market needs.

I do disagree that if the quota is increased to 1.3 million that there will be no need for additional peanuts. I think there will still be a need, and particularly in west Texas. They are producing a high-quality peanut, a Spanish peanut, largely for special market needs, and I think the marketability will still be there.

So the problem has been recognized, and I believe we have dealt with it in a fair and equitable manner, Senator.

Senator HEFLIN. Thank you, gentlemen.

We will call on our next panel—Syd Reagan, general counsel, Southwestern Peanut Shellers Association, Dallas, TX; A.L. Phillips, State president, Virginia American Agriculture Movement, Yale, VA; Ross Bowen, representing the Southeastern Peanut Warehousemen's Association of Georgia, Lyons, GA.

I believe Mr. Reagan has a plane to catch, so Mr. Reagan, if you will go ahead.

STATEMENT OF SYD REAGAN, GENERAL COUNSEL, SOUTHWESTERN PEANUT SHELLERS ASSOCIATION, DALLAS, TX

Mr. REAGAN. Thank you very much, Mr. Chairman.

I am Syd Reagan, general counsel of the Southwestern Peanut Shellers Association, and I am speaking on their behalf today.[1]

First, I want to congratulate this committee and the Senate and the House for the very fine peanut bill that you passed 4 years ago. This bill has worked very, very well, and basically, it needs to be continued.

Our members strongly support the recommendations that have been made by the national peanut growers group.

The reasons why this bill should be continued have already been spelled out in detail, so I will omit that portion of my prepared statement.

There are two problems in connection with the present operation of the additional peanut program that have arisen and need to be dealt with in the new legislation. These have to do with additional peanuts that are intended for export, ending up in the domestic edible market, at price below the support price of the quota peanuts, and consequently, displacing quota peanuts in the domestic edible market.

The result is that quota peanuts are forced under loan and are diverted to export or crushing at losses to the Government. The new legislation must avoid these abuses and these losses.

The first problem arises from a loophole in the legislation and a practice that began with the 1984 crop and that will become more of a problem with the 1985 crop. The problem arises—and I would like to go through this with you, because it is very important that you understand the process by which this abuse occurs—the problem arises when a grower delivers his additional peanuts to a sheller, receives a payment from the sheller for so doing, then places his additional peanuts under loan through the sheller and receives the amount of the nonrecourse loan, and finally assigns his proceeds from the distribution of profits from the additional type pool to the sheller.

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[1] See p. 585 for the prepared statement of Mr. Reagan.

The sheller, within 72 hours, buys back from CCC these additional peanuts that were placed under loan and uses them in the domestic edible market. When the distribution is made at the end of the year from the additional type pool, the sheller receives the distribution.

There are variations as to how the proceeds from the additional pool will be distributed, and sometimes the grower participates. It depends on the agreement between the grower and the sheller. The end result is that the grower receives as much or more for his additional peanuts as he would have under a contract for export. The sheller is able to end up paying less than quota support for these additional peanuts. Quota peanuts are displaced in the domestic edible market at a loss to the Government.

I have attached to my prepared statement a step-by-step example of how this operates.

Now, the Department of Agriculture has refused to do anything administratively about this practice, so the only way to deal with it is through legislation. It is important that the amount of the distribution from additional pools must be made sufficiently uncertain that shellers will no longer engage in this practice. The best way to achieve this is to eliminate the additional type pools and simply have an area additional pool. New Mexico valencias should be excluded, because they represent a unique type of peanut and account for substantially less than 1 percent of the national production of peanuts.

Present legislation should be amended by striking the word "type" in connection with additional peanuts and by adding the New Mexico exclusion.

The Virginia/Carolina Peanut Shellers Association has asked me to advise this committee that they concur in this recommendation.

The other problem that arises in connection with additional peanuts comes about from the lower quality shelled additional peanuts legally required to be exported being diverted into the domestic edible market, and higher quality quota peanuts substituted for them in export. This occurs because the price of lower quality shelled peanuts is very weak in foreign markets as compared with the price of higher quality shelled peanuts. The market for lower quality shelled peanuts is stronger in the domestic edible market.

This illegal substitution has a very serious adverse effect on the domestic edible market for quota peanuts produced in the Southwest area. Because of the greater humidity in the Southeast area compared with the much dryer conditions in the Southwest area, farmers stock peanuts dry out more while in storage in the Southwest. When the peanuts are shelled in the Southwest, many more of them split than in the Southeast, and the splits are viewed as an inferior peanut.

Consequently, the domestic split market is much more important to the Southwest than to the Southeast. The substantial quantities of splits from additional peanuts, and sometimes from No. 1 shelled peanuts, which are also considered inferior, all of which are diverted into the domestic edible market. This has a very depressing effect on the domestic market. The result is that southwestern shellers are able to buy fewer quota peanuts, and consequently, more quota peanuts go under loan and result in losses to the Government.

Now, this problem was recognized by the Department of Agriculture several years ago, and to prevent it, the Government established required supervision of the shelling and export of additional peanuts. This is an effective way of dealing with the problem discussed above, but such supervision is expensive for the shellers and disruptive of shelling operations.

Our members favor an effective alternative to supervision that the shellers can choose. We recommend that new legislation provide that as an alternative to supervision of the shelling of additional peanuts, the sheller can agree to export the same proportion of each grade and size based on the shelling experience with additional peanuts under supervision at that shelling plant with the 1983 and 1984 crop peanuts.

Now, unless an effective alternative to supervision can be incorporated into the legislation, then our members favor mandatory supervision.

Our members urge that Congress deal with these two problems and prevent losses to the Government from occurring under the new legislation.

I would, of course, be happy to respond to any questions.

Senator **Heflin**. Thank you.

Mr. Phillips.

STATEMENT OF A.L. PHILLIPS, PRESIDENT, VIRGINIA AMERICAN AGRICULTURE MOVEMENT, YALE, VA

Mr. **Phillips**. Mr. Chairman and committee members, it is a privilege to be here today to help in directing the destiny of our great country.

Agriculture, with its tremendous productivity, is the answer, and with peanuts ranked as the ninth largest cash crop, valued at $1 billion, we consider the peanut program vital to both producers' and consumers' best interests.

I raise peanuts, along with numerous other commodities, and I feel that this is important, because too often, farmers do not have the knowledge and the vital participation that is necessary for the best interest of their own direction.

It is a real privilege to be here.

The peanut program we have is the best of two worlds, for it contains a market-oriented approach, coupled with supply management. The only way that either one of these positions can work is with a program.

It serves a most vital service by providing the necessary quantity and quality to consumers, while rendering the proper support to the producer.

The cost is minimal, to say the least. The actual cost per pound for the 1.4 million tons produced, divided by the $3 to $4 million the program costs, is practically a no cost program.

The real proof of performance is that the peanut program has a 47-year track record, and a farmer referendum keeps it in place.

Today, the United States produces 10 percent of the world market production and commands 30 percent of the world export market. This is a living, viable example of the supply and demand theory.

As of now, there are 500,000 to 600,000 tons of peanuts in carryover. To discard the program and lower the prices would be absolutely disastrous.

With farmers having fixed costs, increased production expenses, weather variables, and no support reflecting the cost of production is when supply and subsidies become a problem. Why increase the expense of this cost-effective program, as the administration's proposal indicates? Why dismantle a workable, cost-effective program?

Action and legislation are needed so that all commodities can operate on this type of program. No business operates without a certain production control management program. There is no other way that agriculture can continue to operate without this type of program.

When there is a surplus of any given commodity, it not only creates a burden to the consumer, but it dictates the price that the producer receives. To this point, the peanut program has provided a workable base while protecting the best interests of both the consumer and the producer.

Mr. Chairman and committee members, I am more than willing to compete with my 50-cent-per-day foreign farmer counterparts, excluding the human rights violations, as proposed by the administration in free markets, and more exports at lower prices.

However, the key to my participation of this orderly transition will be a nickel-per-gallon fuel, $5-per-ton fertilizer, $500 pickup trucks, and $5,000 tractors.

To accomplish this may be an effort in futility, because so far, no other business supplying agriculture wants to operate on the same principles and guidelines as the farmer does.

Mr. Chairman, I have a few additional notes here that I would like to present that were not written in my testimony.

Senator HEFLIN. If you would briefly summarize them, that would be fine.

Mr. PHILLIPS. We also believe that to help restrain the corporate rogue, we would oppose State and county transfers of peanuts. Mr. Chairman, vast sums of money have been appropriated and spent to get the farmer's crop for less. Testimony has been presented and will be presented, advocating the dismantling of the most exemplary program, the peanut program. In essence, the international corporate structures want a larger share of the domestic and world market at the producer's expense.

Never have we, the producers and farmers, testified in committee advocating that the manufacturers and processors produce for less. Their use of questionable figures and percentages is totally unacceptable because they do not reflect the cost of production. We have never asked the processors to operate below the cost of their production. We need each other, but it needs to be under a fair and equitable base.

The overall agriculture debt today avidly displays the disparity and predatory practices farmers have been subjected to.

In closing, Mr. Chairman, it was brought up, and I have been hearing it kicked around about those 12- to 1,000-acre peanut farmers. I will guarantee you that they have not conspired to control acreage production, nor have they conspired to set prices. However, they are willing to go out and face the adverse conditions of the growing season, nature, the marketplaces, unemployment, and every other thing, but they do produce a substance which is a benefit to all consumers. Looking at control, there are eight peanut companies that control everything. I think we need to be fair and equitable about this. Let's not go picking at each other and saying the farmers have got to produce for less, when the agriculture debt reflects and parallels the national debt. We need to work together on this.

Also in closing my testimony includes the AAM proposals.[1] I thank you, and I will be happy to answer any questions.

Senator **Heflin**. Thank you.

I am going to interrupt right now and call on Senator Nickles from Oklahoma, to make any statement he would like to make, and make any introductions you would like to make.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM OKLAHOMA

Senator **Nickles**. Thank you, Mr. Chairman.

I appreciate your willingness to accommodate our schedule. It is a pleasure for me to appear before this committee. As you know, I testified before your committee on your first day of hearings dealing with some changes I think we could and should make pertaining to the wheat, feed grain, and rice programs. Several proposals are floating around, and I think we need to make some changes in those areas, because, quite frankly, the programs have not worked. They have not maintained farm income. They have not really helped the farmers.

Mr. Chairman, today, I am before you on behalf of the Oklahoma Peanut Growers to tell you that this is a program that does work. As the chairman knows, I am interested in cutting Federal expenditures where I can in other programs. USDA says last year farm programs cost $7.3 billion, and this year it is qoing to cost something like $15 billion. The peanut program last year cost $1.1 million. That is such a small, small percentage of the total cost to the agriculture programs—I think it is 0.015 percent of the total cost. It is a very, very small cost, almost a zero cost, in relationship to the other programs.

My comment would be that Oklahoma is an important peanut State. It is our third largest cash crop. It does mean something to us. Quite frankly, if it ain't broke, don't fix it. This is a program that is costing taxpayers hardly anything. It is a program that has had some success. You may or may not deem it wise to make some fine-tuning adjustments, but I would hope the committee would concentrate its efforts on those commodities where we really have serious costs and serious problems as far as helping farmers.

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[1] See p. 587 for the proposals presented by Mr. Phillips.

I am pleased to see your witness list, and I am also very pleased to have an Oklahoman, who is a good friend of mine, Laverne Johnson, president of the Oklahoma Peanut Growers Association. I have had the pleasure of working with him for the last 5 years. He is a peanut farmer from Fort Cobb, OK, in Caddo County, which is our No. 1 peanut county. He has been producing peanuts for almost as long as I have been around, about 30 years. He knows the ins and outs of the business.

Senator **Heflin**. How did you get in the Senate if you are that young? [Laughter.]

Senator **Nickles**. You are one of the few people who read the Constitution. I could get away with that with most people. A few of us kind of snuck under the door when they were not looking at the age requirements.

Anyway, it is a pleasure to introduce to the committee Laverne Johnson. I think he will complement the hearings, and I see that you have an outstanding witness list. I complement you and the committee for that as well.

Mr. Johnson.

STATEMENT OF LAVERNE JOHNSON, PRESIDENT, OKLAHOMA PEANUT GROWERS ASSOCIATION, FORT COBB, OK

Mr. **Johnson**. Thank you, Senator. I appreciate your comments.

We in Oklahoma are very fortunate to have the support of our Senators on both sides of the aisle, and we appreciate it very much for our 2,400 growers in Oklahoma.

Mr. Chairman, thank you for the opportunity to testify here in behalf of the Oklahoma Peanut Growers Association. I have grown peanuts in Oklahoma, in Caddo County, since 1955, and over the years, the peanut program has been the one mark of stability in our farming operations—something that both my banker and I could count on for some consistency, that is, if we could beat Mother Nature.

The peanut program kept us going when the other commodities were subject to boom and bust economic swings. However, complying with the program has required some sacrifices on our part.

No. 1, to maintain my allotment or poundage quota over the years, I have had to plant peanuts every year. This requirement has guaranteed the American consumer a steady supply.

No. 2, despite my complying with this requirement, program changes made by the Congress have dramatically reduced the number of acres of peanuts that I can grow. In fact, I am now farming less than half the peanut acreage I had in the late 1960's.

However, I understand why this has happened. The dramatic surpluses of the 1970's, and the increasing yields that we have experienced nationwide have meant that without the production controls demanded by the program, peanut farmers would have vastly overproduced for our market. The result would have been boom and bust, and I probably would not be farming today.

Mr. Chairman, the peanut program has demanded discipline and sacrifices, but it has kept us in business. In fact, whole communities in Oklahoma have been able to survive because of the stability offered by the peanut program.

Mr. Chairman, I submit that we in Oklahoma depend on this peanut production a great deal. There were about $50 million in gross revenues in 1984 from peanut sales in Oklahoma; that means about a $350 million in Oklahoma, over seven times the national average. So I submit there are whole communities—small communities, but whole communities—that depend so completely on peanuts that without this peanut production program, within the same framework we have today, I am sure these small communities would be gone.

So I say because of these facts, and on behalf of the hundreds of grower members of Oklahoma, peanut growers, I would ask Congress to continue the peanut program, and I strongly endorse the legislative recommendations of the National Peanut Growers Group, and request that Congress adopt the group's recommendations.

I thank you, sir.

Senator HEFLIN. All right, sir. We appreciate the Oklahoma approach.

Senator Boren is a member of this committee and does a great job, and has been in the forefront of the peanut legislation battles previously, as has Senator Nickles, and we are delighted to have you.

Mr. JOHNSON. Thank you, Mr. Chairman.

Senator HEFLIN. Ross Bowen, please proceed.

STATEMENT OF ROSS BOWEN, REPRESENTING SOUTHEASTERN PEANUT WAREHOUSEMEN'S ASSOCIATION OF GEORGIA, LYONS, GA

Mr. BOWEN. Mr. Chairman and members of the committee, I am Ross Bowen, Lyons, GA, past president of the Southern Peanut Warehousemen Association, a farmer, and a peanut warehouseman.

I am speaking on behalf of the approximately 100 members of Southern Peanut Warehousemen's Association, based in Albany, GA. We are a group of independent warehousemen, who handle and store approximately 500,000 tons of farmer stock peanuts in the peanut-producing areas of Georgia, Florida, and Alabama. We, more than any other segment of the peanut industry, realize the importance of maintaining a viable peanut program.

There are many reasons why it is important for the U.S. Department of Agriculture to continue a peanut program similar to the one adopted in 1981. The main reason, of course, is to assure the availability of a supply of high-quality peanuts to the manufacturing companies, who in turn make available to the American people, as well as people throughout the world, an abundant supply of the finest high-protein food on Earth.

The Peanut Price Support Program has built into it a quality control section which assures that nothing except the very highest-quality peanuts are available for edible use.

In reality, the peanut is a perishable commodity. It has to be handled and stored with the utmost care and cannot be carried over to a second year without putting into cold storage, which is impossible, except on a very limited basis. Therefore, when we stored peanuts in our warehouse in September and October 1984, regardless of all the care we use, these peanuts will begin to become rancid and out of condition when the temperature gets high in July and August 1985, making it impossible to keep them the second year.

Production of peanuts is a highly sophisticated and expensive operation; with present inflation pushing the cost well above $600 per acre in 1984, with a national average yield of about 2,600 pounds per acre. This means that only the growers with above the national average yield will have made a profit in 1984.

Should the Peanut Price Support Program be allowed to expire, the year of 1986 would be a year of chaos and confusion. The farmers in the three producing areas would certainly produce many more peanuts than the market could absorb, or more than we warehousemen and shellers could handle. Therefore, the price would certainly fall far below the cost of production.

Consequently, the following year, there would not be enough production to supply the demand, creating a disaster to the entire peanut industry, from the producer to the consuming public.

I believe that if the manufacturers of peanut products knew the real peanut story, they would appreciate the supply of high-quality peanuts available to them at a most reasonable price.

The drought throughout the three peanut-producing areas in 1980, which cut total production in half, had a most devastating effect on the entire peanut industry, causing peanut prices to soar to $1,600 per ton. However, the price escalation had very little effect on price to the producer, as 95 percent of the peanuts had already left the producer before the price escalated.

The short crop in 1980 caused the price of peanut products to almost double at the supermarkets. I doubt that the excessively high prices were justified because most of the peanuts were contracted and delivered to the manufacturer at a price based on the $455 per ton support price.

Mr. Chairman and members of the committee, I plead with you to assure the American people, as well as many people throughout the world, plenty of high-protein wholesome foods made from peanuts, at a reasonable and stable price, by adopting a peanut program similar to the 1981 act, for the next 4 years.

We, the Southern Peanut Warehousemen Association, wholly support the entire program that the National Peanut Growers Group has supported.

With that, I want to thank you for letting us appear before you today, and if there is any way we can help, we are ready to join hands.

Senator HEFLIN. Well, thank you, gentlemen. We appreciate your very enlightening testimony today.

Our next panel is William C. Wampler, president, American Peanut Product Manufacturers, Inc., Washington, DC; Dr. Merrill J. Bateman, MJB Consultants, Inc., Provo, UT; Richard T. O'Connell, president, Chocolate Manufacturers Association, McLean, VA; Marty Palmer, president and chief executive officer, Palmer Candy Co., representing the National Confectioners Association, and Larry J. Pryor, director of purchasing, Lance, Inc., Charlotte, NC, representing the Peanut Butter & Nut Processors Association.

If you gentlemen would come forward, and whoever would like to testify first, we would be glad to hear from you.

STATEMENT OF WILLIAM C. WAMPLER, PRESIDENT, AMERICAN PEANUT PRODUCT MANUFACTURERS, INC.

Mr. **Wampler**. Senator Heflin, may I inquire on a point of procedures. Is there an allocation of time for this panel?

Senator **Heflin**. Well, I would say reasonable.

Mr. **Wampler**. Well, my reason in asking, there seems to be some——

Senator **Heflin**. I have an appointment at 12:30, which if we could finish before, it would be nice. But in the event we cannot, we will have to come back.

Mr. **Wampler**. Well, we certainly will try to accommodate the Chair, and we appreciate your understanding. There was some misunderstanding in the communication we got from the committee as to the time allocated.

Senator **Heflin**. They do not always tell me all the rules and regulations; they just point me, and I do it.

Were there any ground rules that I had not been informed about that are applicable here? [Conferring with staff.] I think just reasonable.

Mr. **Wampler**. Well, I certainly would hope that we can conclude——

Senator **Heflin**. You know, the House side always did limit themselves to 5 minutes. [Laughter.]

Mr. **Wampler**. Senator, there are others, but would you like for APPMI to proceed with our testimony?

Senator **Heflin**. However you would like to present it.

Mr. **Wampler**. Senator Heflin and other members of the committee, we certainly appreciate the opportunity to appear here this morning. I am representing the American Peanut Product Manufacturers, Inc., referred to as APPMI, for short.

I serve as president of this association, which was formed in 1983 to represent businesses directly engaged in the commercial manufacture of human food prepared from or with peanuts in the United States.

APPMI member companies represent over half the peanuts purchased for domestic use in the manufacture of peanut butter, roasted/salted peanuts, peanut candy and other peanut products.

While the APPMI has not endorsed any of the several farm bills introduced today, the Association does support the enactment of peanut program language in the farm bill that would provide for a truly market-oriented peanut program. A market-oriented program, one that does not restrict production for domestic edible use, one that lets the marketplace set the price of the raw commodity, will support efficiency of production, provide reasonable returns to growers, foster greater consumption of peanuts and peanuts products, and save the American consumer millions of dollars.

A peanut program that achieves this goal, whether immediately or within a reasonable length of time to allow for necessary adjustments to the change, will offer greater opportunity for all segments of the domestic peanut industry—growers, shellers and manufacturers—and will provide greater equity for the consumer. Additionally, under a peanut program that achieves this goal our competitive situation in world markets could improve even more.

A market-oriented peanut program will provide equity for growers by allowing anyone to grow peanuts for the domestic edible market. It will provide equity for the American consumer by ending the inflated Government guaranteed price of domestic edible peanuts, which is now subsidized by the consumer.

I do not believe I have heard any of the witnesses this morning, Senator Heflin, allude to the fact that while, indeed, the 1981 amendments of the farm bill and the peanut title did, in fact, result in no cost to the Treasury, that cost was transferred from the Treasury to the consumer, to the extent of an estimated $250 million to $300 million a year, and over the life of a 4-year farm bill, it would take the low estimate of $250 million a year. That would mean it would cost the consumer at least $1 billion, and perhaps more, on the order of $1.5 billion.

So, while we tend to separate the taxpayer and the consumer, I think for the most part, they are one and the same, so the cost is there, even though it has been transferred from the Treasury, and now rests on the backs of the consumers.

Accompanying me today is Dr. Merrill Bateman, who prepared the comprehensive study of the entire peanut industry, entitled, "The U.S. Peanut Industry, the World Market and U.S. Legislation." Dr. Bateman is president of MJB Consultants, Inc., in Utah, and he is former dean of the school of management of Brigham Young University. He has worked as an agricultural economist, specializing in commodity forecasting for 20 years.

Mr. Chairman, may I introduce Dr. Bateman.

Senator **Heflin**. Dr. Bateman, welcome.

STATEMENT OF DR. MERRILL C. BATEMAN, MJB CONSULTANTS, INC., PROVO, UT

Mr. **Bateman**. Mr. Chairman, I appreciate the opportunity to appear before the committee, and ask permission that my written statement appear in the record and that I be allowed to summarize.[1]

Senator **Heflin**. Without objection, it will appear.

Dr. **Bateman**. Thank you.

The current peanut program does restrict the supply of peanuts for the domestic market through a set of antiquated quotas, which have been allocated to specific land parcels which happened to be growing peanuts 30 to 40 years ago.

I was interested in the chairman's opening remarks this morning, in which you indicated the objectives of the legislation when it was passed in 1981—one objective being to protect farmer income; another one, to provide adequate supply at reasonable prices for the domestic market; a third one, to limit Government costs; and the fourth, to encourage exports.

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[1] See p. 589 for the prepared statement of Dr. Bateman.

Today, we have also heard that "If it isn't broken, don't fix it." I would like to suggest that the program is broken, at least in two respects.

First, the supply of peanuts to the domestic market through the quota program has fallen short of providing an adequate supply. For example, in 1983, we estimate that it was at least 70 to 80 million pounds short. In 1984, the estimate will be about 200 million pounds short. In 1985, the number could be 300 million pounds or more, in terms of the volume of quota peanuts grown in this country for the domestic market vis-a-vis the demand.

Fortunately, we do have Mr. Jackson and others, who do grow additional peanuts that can back up the quota shortfall. The problem that manufacturers have, of course, is that in order to get access to additional peanuts, they not only have to pay the support price, but an additional 5 to 7 percent more, because it runs through the Government.

Basically, what is happening is that a hidden tax of approximately $250 to $300 million a year, as Mr. Wampler said, has been placed on the consumer. And, from my point of view, it does not matter whether you take the money out of his pocket in the form of taxes, or out of his other pocket in the form of higher prices; it is still a matter of the consumer being hit.

Let me indicate why we believe that the consumer is paying this hidden tax.

First, I have as an illustration on the chart a jar of peanut butter. We would like to indicate that the tax of $250 million per year adds at least 10 percent to every jar of peanut butter, peanut candy, salted peanuts that are produced in the United States. The reason for that, as illustrated on the next chart, is that the price support level has been set significantly above the cost of production.

The data we are using is from the U.S. Department of Agriculture. In fact, it appeared in the Federal Register Wednesday, December 12, 1984. The cost numbers we are using were also reported in an extensive document published by the USDA in July 1984. The costs that we are taking are called total economic costs. These costs, according to the Department, include variable expenses, general farm overhead, taxes and insurance, capital replacement. In addition to those, they also provide returns to capital, land, and labor.

So, we have the land costs in, we have not only capital replacement costs, but also returns to capital. When those numbers are put together and divided by the trend yields, the average yields of about 2,700 pounds an acre, costs on a national average basis in 1983, according to the USDA, were 19 cents per pound.

It is our firm conviction, after doing extensive work over the last year and a half on costs of production, that these costs can be reduced by at least another 4 cents.

For example, the quota has a value to it, because it provides the right to grow peanuts at a much higher price. In Georgia, you can sell the quota without the land for 6 cents per pound; in Virginia, the price is 2 to 3 cents per pound.

Our examination of the data indicates that if one were to eliminate the quotas and move toward a free market, that you would reduce the cost of production by at least 2 cents a pound.

A second reason that the costs are inflated in the USDA numbers is that the quotas historically were allocated to peanut-producing areas that existed 30 to 40 years ago. As Mr. Jackson testified today, some land has been growing peanuts for more than 50 years. Now, that is true in Georgia as well as it is in Texas. The problem in Texas is that the water in the aquifer no longer exists; it is getting so low you cannot use any water out of the aquifer. So they are now producing in land areas with quotas allocated to them, where there is very little water. Consequently, their yields now have fallen to less than 1,000 pounds an acre.

If quotas were reallocated to areas where peanuts are produced at 4,000 to 5,000 pounds an acre, we believe that costs would be reduced by another 2 cents.

For example, we are well aware of a number of areas in Georgia, Texas, and other growing States where the costs of production are on the order of 12 cents a pound or less, including land values.

Another way of stating the substantial difference between the support price and the cost of production is to look at the returns at the 19-cent level. The peanut returns are based on a 19-cent cost of production number and include the returns to capital, land, labor, and management. Again, the numbers are taken from the "Economic Indicators of the Farm Sector" published by the USDA in July 1984. The charts show the returns per acre in dollars for various crops.

If you will turn to the next chart, we are going to indicate why the returns to quota peanuts are 4 to 20 times the returns to other alternative crops.

Basically, on a dollar basis, the chart indicates that from 1975 through 1983, which is the most recent year for which data is available, that peanut returns per acre—capital, land, labor, and management—varied between $250 and $350. There was 1 year in which the returns were close to zero because of the drought.

In contrast, soybeans and corn, which are the next best alternatives nationally, had returns on the order of $25 to $100 per acre. In the late 1970's, when the returns were on the order of $100 per acre, there were no farm problems in this country. Today, in soybeans and corn, with returns on the order of $25 an acre, there is a problem because of the debt problems facing farmers.

The point I want to make with the chart is the stark contrast between the returns of growers of other crops and the growers who hold peanut quotas.

Another way of stating this is to look at the equivalent prices for soybeans, corn, and wheat if they were to receive returns comparable to the returns for quota holders in peanuts.

For example, if soybeans were to receive a return of $250 to $350 an acre, the price would be close to $14 per bushel. This contrasts with the loan rate today of about $4.50 a bushel. Corn price support would be $4.77; wheat price supports would be almost $13 a bushel.

It is quite clear that if these kinds of support levels and returns to other farm sectors existed, there would be no financial problems for the farm sector but there would be a serious problem in controlling production, because of the extraordinary returns.

Finally, let me move on quickly and summarize two last points. One is, that we are not talking about small family farms, for the most part. The benefits, by and large, go to large farmers. We are aware from census and Agriculture data that there are at least 12 farms producing on acreage of more than 1,000 acres each. When we calculate their poundage and then look at their portion of the hidden $250 to $300 million subsidy, it would be about $3 million, or more than $250,000 each.

It is not just the 12 farms; there are another 723 farms that get approximately $60 million out of the subsidy, and 3,900 farms receive close to $160 million.

In fact, the quota program is so lucrative that it pays to rent the quota, or to sell it over time. In fact, one of the things we would recommend is that if, for some reason, we do not end up moving toward a free market system, that at least we solve Mr. Jackson's problem by allowing quotas to be sold interstate so that we could rationalize the production on an efficient basis.

This would solve one of the problems that others have suggested. If quotas are transferred at no cost, capital costs invested in certain areas, based on historical production patterns will be lost with no way to recapture or cover the loss. But if you allow the quotas to be sold, that would partially offset the capital loss.

Let me finalize our recommendations and the benefits that would flow therefrom.

U.S. production, for example, would increase from 4 billion pounds a year to 5 billion pounds a year in the next 3 to 4 years, if we move toward a free market and allow production to rationalize itself from a cost standpoint and allow the free market to operate.

If the current program continues, production will stagnate. Between 1975 and 1984, U.S. consumption of peanut products increased less than 1 percent per year, less than the amount of population growth. The price has been set so high for the American consumer that it is choking off consumption. This is in stark contrast to the rapid rates of growth of food products in the snack food category that compete with peanuts.

We believe that U.S. consumption would increase at a 3- to 4-percent rate, rather than the less-than-1-percent rate that has been occurring, if we move to a free market.

Peanut farmer revenues would increase above current levels, because the increase in production and consumption would more than offset the price decline.

Although profit margins will drop to a more reasonable range of 10 to 20 percent, peanut farming in a free market will still compete favorably with alternative crops in the main growing regions.

A very important point is that peanut export volumes have not risen since 1977, 1978, and 1979. In fact, even though they have risen marginally since 1981, they are only about 60 percent of what they were in the 1977 to 1979 period.

We believe that a move to a free market would lower production costs and prices so that we could increase export volumes.

Thank you very much.

Senator HEFLIN. Mr. Palmer.

Mr. **Palmer**. Senator, my name is Marty Palmer.

Dick O'Connell, who represents the Chocolate Manufacturers Association, is right now testifying before the House of Representatives, on sugar. I would like to ask—I am confident, actually, that he is going to be here in a few minutes, but I would like to ask that his testimony, which I think you have, be entered into the record.

Senator **Heflin**. His statement will be entered in the record.[1]

STATEMENT OF MARTIN PALMER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PALMER CANDY CO., REPRESENTING THE NATIONAL CONFECTIONERS ASSOCIATION

Mr. **Palmer**. Thank you.

As I mentioned before, my name is Marty Palmer. I am president of the Palmer Candy Co., a medium-size, family-owned, 100-year-old firm, that is operated in Sioux City, IA. I am very glad to be here today to talk about what I think is a very serious situation.

Peanuts make up a full one-third of the total poundage of raw materials we use in making our products. As one can easily see, the price of this single raw ingredient dramatically affects the size and the cost of our confections to our consumers. By artificially supporting the price of peanuts with the quota and two-tier pricing system, Congress is making it impossible for the peanut-using industry in general, and Palmer Candy in this case, to offer the American public the good value it deserves and receives with almost any other agricultural commodity.

My company is located in Iowa, in the middle of one of the great agricultural areas of the country. Sir, we know about the necessity of a reasonable agricultural program. However, this program that the U.S. peanut farmer now enjoys is far too expensive to the American public. As you already know, the returns to the peanut farmer already exceed those of alternative crops by 4 to 10 times on a national basis.

We are located in an area hard hit by the recent agricultural downturn, and we have a great deal of compassion for the U.S. farmer in general. However, I have very little interest in continuing to support the price of this agricultural commodity, peanuts, at a price that is by some reports 80 percent above the cost of production.

As I mentioned before, we are only a medium-sized company, employing about 80 people, and using about 2 million pounds of peanuts a year. But my firm exists in an extremely competitive marketplace, the snack foods industry. The current peanut price support program puts us at an incredible disadvantage to many of the foods that we compete against. Think of the raw ingredients of almost any other snack food, such as potato chips, corn chips, or bakery items, and I think you will have to agree with me that in almost no other circumstance are my competitors forced to pay such highly supported, nonmarket prices for their raw ingredients, such as corn, flour, wheat, potatoes, oils, or corn syrups.

By selectively supporting peanuts at a much higher cost value than other competitive food items, Congress has forced those foods that do contain peanuts, such as ours, to reduce their portion size and usually thereby reduce the demand for their products. This accomplishes only two things—the total demand and usage for peanuts is reduced from what it could be and should be, which hurts the peanut farmer as much as it does Palmer Candy and the peanut-using industry in general, and it hurts the American public because they are the ones that ultimately have to pay the inflated peanut price to the farmer.

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[1] See p. 596 for the prepared statement of Mr. O'Connell.

Judging from our costing figures, which are fairly representative of our industry in general, if the peanut price was allowed to exist at a level around 10 to 15 percent greater than the actual cost of production—a level much more in line, certainly, with what my fellow Iowan farmers are getting—well, actually, I think they would be lucky to get that—rather than the 50 to 80 percent excess allowed now, we would be able to offer the American public a product size 20 to 30 percent greater than we can now. This would, naturally, increase the demand for more peanuts by quite a measure which would ultimately help the peanut farmer, the American manufacturer using those peanuts, and most importantly, the American consuming public.

I would like to strongly urge this committee to consider using a more market-based approach to determining peanut pricing, rather than the archaic quota and two-tier pricing system now used.

Another detrimental byproduct of the current two-tier pricing system is the fact that through the export market, the entire rest of the whole world is able to buy U.S.-grown peanuts at far less than domestic manufacturers can. It is this sort of price discrepancy that makes it literally possible for a European candy manufacturer to import these peanuts from the United States, manufacture candy items, and using those peanuts, export them back to the United States with their candy products and still have, when they are competing against us, a lower peanut price in their products than we can get.

The Palmer Candy Co. has a hard enough time competing with the flood of imported products brought on by the highly supported U.S. sugar price and the strong dollar, without also supplying them with the very peanuts that they are going to sell against us, at better prices, mind you.

In conclusion, the current quota and two-tier pricing system definitely hurts Palmer Candy and other American companies like ours by forcing us to compete with unrealistically high raw material costs. It hurts the American public by forcing them to pay for the highly supported costs passed through to them in their products. And finally, this pricing system aids the peanut farming community unfairly when it is compared against almost any other major crops grown in the United States today.

At this point, I think I would like to make a comment. I in no way want this to be interpreted that we are against the peanut farmer, or that we want to trash the whole program. It is the quotas and just what we perceive as the relative unfairness of the system that we think is unfairly holding our ability to increase the demand for these peanuts, that we want to change.

At any rate, I would like to thank the committee for considering this option and for allowing me to express my opinions and those of our industry.

Thank you.

Senator **Heflin**. Thank you.

Mr. Pryor.

STATEMENT OF LARRY J. PRYOR, DIRECTOR OF PURCHASING, LANCE, INC., CHARLOTTE, NC, REPRESENTATING THE PEANUT BUTTER & NUT PROCESSORS ASSOCIATION

Mr. **Pryor**. Mr. Chairman, I am Larry Pryor of Lance, Inc., in Charlotte, NC, appearing for the Peanut Butter & Nut Processors Association, whose members process peanuts.

This verbal presentation is a summary, as requested by the committee. In that regard, I would like to make two requests. One is that my full prepared text be made a part of the record.[1]

Senator **Heflin**. It will be so entered.

Mr. **Pryor**. And second, that this pamphlet, which our association has prepared, pertaining to the peanut program, also be made a part of the record.[1]

Senator **Heflin**. It will be so entered.

Mr. **Pryor**. Thank you.

We support the recommendations of the Department of Agriculture for phasing out the peanut allotment program. It is a program which was instituted, along with others, to allow those who were actually doing the farming to have the allotments. Today, many of those farming must pay a privilege tax to a third party to raise peanuts for the U.S. market. We say that this is basically wrong.

The program creates an artificially high price for the product, causes significant shortages in some years, resulting in the U.S. consumers not only paying significantly more for peanuts and peanut products, but actually subsidizing other peanut and peanut product consumers in other countries.

The program has the side effect of restricting peanut imports, even when shortages occur in this country, and effectively prevents U.S. manufacturers from selling peanut products in Canada. Even in States which do not have peanut allotments, farmers in these States operate very profitably without rigid Government programs in the production of both soybeans and pecans. The growth of these industries has been most impressive, under a market-oriented policy, while the peanut acreage production for the U.S. market has changed little in the last 50 years.

We recognize that there are some who have come to be dependent upon the peanut program, which occurs almost always in the case of a Government-guaranteed price type of program, and therefore, a phaseout is justified rather than an abrupt change. We believe the recommendatiions of the Department of Agriculture would provide properly for that change. It is our recommendation that they be enacted.

Thank you, Mr. Chairman.

Senator **Heflin**. Thank you.

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[1] See p. 597 for the prepared statement of Mr. Pryor and p. 599 for a reprint of the pamphlet referred to by Mr. Pryor.

Thank you, gentlemen, for your testimony.

Senator Helms has asked me to ask these questions, I suppose, of Dr. Bateman.

What do the peanuts in a jar of peanuts cost?

Dr. **Bateman**. I have some numbers here, Senator, for a 28-ounce jar, and the peanuts in that jar, in terms of what the farmer price would be is 72 cents, or about 35 percent of the total.

Senator **Heflin**. All right. Now, what does this jar cost the consumer?

Dr. **Bateman**. About $2.43, approximately.

Senator **Heflin**. What is spent by the manufacturers for marketing and other——

Dr. **Bateman**. The manufacturers spend just a little over 53 percent of the manufacturing value on—sorry—they spend about 53 percent of that on manufacturing costs, packaging, advertising, and promotion.

Senator **Heflin**. How much does the farmer get for the peanuts contained in a jar of peanuts? I reckon that was the 72 cents—I guess it is the same question.

Dr. **Bateman**. Yes, it is.

Senator **Heflin**. All right.

They tell me that a good economist who knows figures, can pretty well establish most anything, and we have differences of opinion, in particular, relative to cost of production and profit today. The Congress in 1981 established the loan rate of the support level for the quota peanuts at $550.

Based on the concept that that was the cost of production, there were differences—if I remember the figures by some of the land grant colleges, they had the cost of production up to $631 a ton—but anyway, the concept was that it would be established at around the cost of production, which was lower than what most of the land grant college estimates and their figures had been. We have just seen, on February 14, that the Secretary of Agriculture increased the national support level, loan level, for peanuts at the quota level of $559 per ton. I have a news release from the Department of Agriculture in which Secretary Block is quoted in this as saying that the U.S. Department of Agriculture has estimated that the 1984 peanut production costs increased from those of 1983, so a $9 per ton increase is necessary.

Based on that calculation, they differ substantially from your figures relative to this matter. Do you believe that the concept—and there are a lot of people who think that the new concept of the cost of production formula initiated by the Department of Agriculture is erroneous and wrong, and have so stated. But this would even go contrary to your position on these matters.

Do you wish to comment on that?

Dr. **Bateman**. Yes, I do.

I am familiar with the land-grant college figures, which are at the 24-cent, 25-cent level, and I am also familiar with the numbers that were used to increase the support level, which run about 22 cents.

Let me indicate first of all, as I have talked with various people in the USDA—and I basically agree with them—that a more sound approach to determining long run costs is that which looks at it from the standpoint of total economic costs, where you look at the variable expenses each year, you look at the general farm overhead, you look at all the fixed costs, you take the capital replacement. Then you determine what kinds of returns should go to capital, land, and labor.

When you take that approach, you do come up with a 19-cent number. Now, what is the difference between the 19-cent number and the 22-cent number? For the most part, basically, what you have done is taken the capital and the land and the labor, and you have given them a return, but in the 22-cent number what you have done is you have added in cash-interest expenses. We heard a Congressman testify yesterday, in fact, that those borrowings, interest expenses, if it were not for the quota program and for the high support level, that not only has that support level supported the cost of producing peanuts and the capital borrowings that needed to be borrowed on those peanuts, but also, it helps support other crops. We believe that that is one of the differences in here, that if you include interest expenses on the debt, basically, what the Government is doing is indicating that we will not only support you in terms of the cost of production, but we will also cover any borrowings that you have. And from our point of view, that increases the average borrowings above and beyond what is required to produce peanuts.

Senator **Heflin**. Well, your figure is 22 cents. I believe, at $550, they add up to just about 24 cents, don't they, on the basis of costs—they differ on that.

Dr. **Bateman**. Mr. Chairman, actually, my number is 15 cents. The 19-cent number and the 22-cent number come from the Department of Agriculture.

Senator **Heflin**. Well, you know, when you talk about the cost of land, being included, I suppose any manufacturer of peanut butter or of candy—in Mr. Palmer's situation, you figure your cost of land involved in calculating your profit, as well as everything else. It always seemed to me that everybody wants to use cost of buildings, cost of land, and everything else, but when it comes down to the farmers, they want to exclude the cost of land in calculating the cost of production. I do not seem to understand that.

Mr. **Wampler**. Senator, may I comment briefly on the support price? I do not want to inappropriately interject my past experience in legislative matters——

Senator **Heflin**. Oh, we do not want you to do that——

[Laughter.]

Senator **Heflin**. You know, I wanted to ask you one time whether you were a lawyer.

Mr. **Wampler**. I recall quite well the deliberations of the conference committee on the 1981 farm bill. If you recall, we had just gone through a disastrous drought in 1981, and the cost of production and cost of manufacturing peanut products soared. Then, in 1981 and subsequent years, as normal yields returned, why, those prices came down, both of them. But you recall, in 1980—I mentioned 1981—as we were looking at the farm bill, we looked at a number of costs of production from the land-grant universities and from others, and a political judgment—one that I reluctantly supported at the time—of the cost of $560 per ton, that was set for the

1982 crop. Then the law provided for each subsequent year of that farm bill, that the Secretary could make an upward adjustment not to exceed 6 percent in the cost of production. So the experience is in 1983, there was no increase; in 1984, there was no increase, because inflation came under control. Then, for this crop year, the Secretary made a judqment of 9 cents. So I think, regardless of what your starting point is, there has been a relative stability in the increased cost of production from the producer.

Senator **Heflin**. You know, Mr. Wampler, as well as I do that the Department of Agriculture in making its calculations differed very, very markedly from the land-grant universities and colleges, your Virginia Polytechnic Institute, and the others, in regards to those years of 1981, 1982, 1983, and 1984. I know that everybody felt like there was a calculation of the cost of production to prevent anything going on in the Department of Agriculture, and this is finally an admission that the cost of production has gone up over what it was in 1981.

If it is, and then, of course, the market price today is just about the loan rate, so the profit on figures is subject to many interpretations by land-grant colleges, economists, and everyone else.

Well, thank you, gentlemen. The hearing is adjourned.

[Whereupon, at 12:25 p.m., the committee adjourned, to reconvene at 9:30 a.m., Thursday, April 4, 1985, in room 328–A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Public Law 480 and Export Issues

THURSDAY, APRIL 4, 1985

U. S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, at 9:40 a.m., in room SR 328-A, Russell Senate Office Building, Hon. Rudy Boschwitz presiding.

Present: Senators Helms, Boschwitz, Wilson, McConnell, Zorinsky, Melcher, and Dixon.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The committee will come to order.

This hearing concerns Public Law 480 and also agricultural exports in general, a very broad subject. We have a long list of witnesses and we trust that the witness will be as specific as possible so that we can move along with the hearing, and I note that Senator Wilson is here. He is also on the Armed Services Committee. I know they are trying to mark up the entire armed services budget.

Senator, you wanted to make some comments at the outset?

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Mr. Chairman, I just thank you and commend you for holding this hearing. I think the subject is one of enormous importance. It certainly is in my State which is dependent on agricultural exports if we are to employ the tens of thousands of people whose livelihoods depend on our success in that effort.

I would only say that I have looked at the long list of witnesses and it is a distinguished list, and I will review the record with great interest. I suspect, as you have indicated, that I will not be here for most of the hearing because we are trying to complete the markup on the fiscal 1986 defense authorization bill. The good news is we are almost finished. The bad news is we are almost finished. [Laughter.]

But you will learn more of that later, and you have got enough on your plate this morning. So I thank you, commend you, and hope I can get back and participate in the hearing itself.

Senator **Boschwitz**. Well, we dealt with that subject in the Budget Committee, and I do not know if that is good news or bad news.

Senator **Wilson**. It is bad news.

Senator **Boschwitz**. Senator Helms is going to be here in approximately three-quarters of an hour and I will have to leave for approximately 45 to 50 minutes at that time to go down to the Department and talk about cargo preference. The Secretary and I will have some remarks about cargo preference which there will be a hearing on this afternoon.

My understanding is that Senator Mattingly and Senator Quayle wanted to testify. Is their staff here by chance?

Well, when Senator Quayle comes in, or Senator Mattingly, we will interrupt our witnesses and ask them to hold off for just a few minutes. We have so many witnesses this morning, that I will enforce the rule with respect to 7 minutes, and we will expand that rule somewhat for the first two witnesses, Dr. Kenneth Bader and Mr. Fischer. Dr. Bader is Chairman of the National Commission on Agricultural Trade and Export Policy.

Please come forward. The witnesses will sit here.

Mr. Fischer is a member of the President's Task Force on International Private Enterprise.

Are you testifying together? Is Mr. Fischer here?

Mr. **Fischer**. We are good friends, Senator, but we are not on the same panel.

Senator **Boschwitz**. Are you testifying together on the same panel?

Mr. **Fischer**. No.

Senator **Boschwitz**. Then hold off, Mr. Fischer.

Dr. Bader, please proceed.

STATEMENT OF DR. KENNETH L. BADER, CHAIRMAN, NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

Dr. **Bader**. Mr. Chairman, it is a great honor for me to appear before you today on behalf of the members of the National Commission on Agricultural Trade and Export Policy to participate in your deliberations on the trade and export title of the 1985 farm bill. I have another private sector member of the Commission with me this morning, Duke Barr, who will appear before you later in testimony relating to his area of interest. He is a farmer from Louisiana, raises soybeans and cotton, and also members of the staff are in the back of the room.

It is the Commission's feeling that U.S. agriculture's stake in trade and exports is as great today as it has ever been in our Nation's history. The policy adopted by this committee will have a profound effect upon the future opportunities which exist for agriculture in the markets of the world. The members of your committee are embarked on a great task which, I am confident, will resound to your credit and to the benefit of all Americans engaged in the farm and food system.

The National Commission on Agricultural Trade and Export Policy was established by law in August 1984 to report to the President and the Congress its views and recommendations about the policy to improve the trade and export picture facing U.S. agriculture. The Commission counts among its 35 members, 4 members of your committee, Mr. Chairman——

Senator **Boschwitz**. We are going to reduce you to 7 minutes unless you get to the point and quit the oratorical remarks.

Dr. **Bader**. I wished to enter what the Commission is.

Senator **Boschwitz**. We know what the Commission is. We will put your entire statement in the record.[1]

Dr. **Bader**. We have summarized the leading problems since we have been meeting in January facing the agricultural exports and trade as follows:

The high value of the dollar is, of course, no new news. We have discussed a number of aspects related to the high value of the dollar as to how we could counter it. The Commission does not have a recommendation at this time but will continue to intensify our study and deliberations and, hopefully, we will have some interim reports on this subject for you later this summer.

The Commission believes there is an inadequate formulation of U.S. agriculture trade policy. We feel that there are too many agencies. There is a disparate attention given to the formulation of trade policy related to agricultural exports and trade, and we need to have a national commitment that we are going to export, we are going to be competitive, we are going to be price competitive, we are going to have quality assurance and it is our intent to export that which we need to export.

The Commission believes there is a need for more aggressive export expansion programs and activities, and the report which will be made available to your committee and to the public at large carries a number of recommendations that have to do with credit, the use on a case-by-case basis of export restitution or other kinds of policies that will counter unfair trading practices. The Commission believes that we have been asked, the farmers and the agricultural industry representatives, have been asked to compete on an unlevel playing field, and it is time for the United States to get tough and to insist that at least we work toward, first of all, through negotiation, and if negotiation does not prove with any results, that we use the necessary retaliatory measures to bring a level playing field into being for our American agricultural industry.

We have a number of recommendations related to cargo preference which I know you are very interested in, and we recommend exemption of all agricultural exports from cargo preference and ask that the Director of the OMB be asked to include, if subsidy is important and necessary for the maritime industry, that that subsidy be included on the appropriate budget as indicated for the maritime industry.

With regard to food aid assistance, we have a number of recommendations that we think are very important with regard to food aid. We have noted with interest that the total amount of economic assistance, Mr. Chairman, in terms of food aid has slipped from 33 percent of the food aid of the total economic assistance that existed in 1972 to 16 percent today.

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[1] See p. 614 for the prepared statement of Dr. Bader.

Senator **Boschwitz**. What do you mean?

Dr. **Bader**. That includes World Bank, that includes the whole package of funds that are provided for the general economic assistance, foreign economic assistance.

Senator **Boschwitz**. Why are the two related?

Dr. **Bader**. Because in 1972 the food aid was a part of that, it was part of those funds that make up the total economic assistance and comprised 33 percent. The total package has not changed that much. Food aid has become less, and it is presently 16 percent. We are recommending that a move be made back to a level somewhat of the 33 percent or 32 percent.

Senator **Boschwitz**. Why are those ratios meaningful?

Dr. **Bader**. We think it was important——

Senator **Boschwitz**. Why are the ratios meaningful?

Dr. **Bader**. To help in our market development.

Senator **Boschwitz**. I know that, but why is it meaningful that the World Bank and the other international banking institutions have to have a certain relationship to Public Law 480?

Dr. **Bader**. They do not. We are talking about food aid and if, indeed, the ratio is not possible to achieve, we are simply saying to restore the food first principle of our economic assistance programs and if, indeed, the amount of the total economic assistance does not include more food aid, we are simply saying make some draft appropriations additionally for food aid.

Senator **Boschwitz**. That is something that is not going to happen this year.

Dr. **Bader**. I understand that.

Dr. **Boschwitz**. It was nice of you to recommend it though.

Dr. **Bader**. It is something the Commission members felt very strongly, that we had diminished the importance of food aid in our Economic Assistance Program. We indicated we must reestablish our reputation as a reliable supplier of agricultural products.

We recommend the retention of all contract sanctity and provisions for embargo protection, but we ask that the 1985 farm bill include a specific prohibition against the use of export embargoes on all commodities and products except in time of war

Senator **Boschwitz**. It will.

Dr. **Bader**. We have taken a look and had a lot of discussion with regard to the 1985 farm bill, and our Commission, as you know, is made up of widely diverse interests, and so we chose to deal with principles rather than specifics, and the principles are listed in the testimony that we believe in: A long-term policy with flexibility, programs, and policies that will allow our products to be priced competitively and, of course, a number of other things that relate to soil conservation and the support for agricultural research and education.

Mr. Chairman, we have met intensively since January 1. We are not through with our work. We are going to continue to meet on a monthly or more frequent basis until July 1986. We hope to have not only a final report but interim reports beyond the one which you have in front of you.

So I would welcome any further questions you might have.

Senator **Boschwitz**. I have read some of the material that has come out from your Commission, and I have read the testimony of Mr. Andreus. Indeed, I have met with him as well about it, and also a number of other people. I will read this which looks like a good summary of all the recommendations and it is important. I suggest to you that whatever recommendations you have with respect to the high value of the dollar—we had substantial hearings on that in the Foreign Relations Committee as well—that you not wait until July. I would trust that we will take action on the farm bill at least prior to that and at least in this committee, probably not in the Senate, but hopefully maybe, depending on what comes out of the committee, how broad a support it had. I would suggest that whatever recommendations you have, additional recommendations you might have to this committee with respect to that which should be incorporated in the farm bill, they should be done soon. We are going to have to do some of the things that you have written and spoken about. We are going to have some difficulty in doing things on cargo preference you suggest simply because of the politics of the matter, and I will be introducing a farm bill for 8 years, not for 4, very shortly. There is a question whether or not it just cannot continue more or less indefinitely.

We certainly will, as I indicated, become a reliable supplier and incorporate that in the farm bill. Still, the need for expanded food assistance to developing countries, are you talking about the Public Law 480, or the GSM credit programs?

Dr. **Bader**. We are talking about the items that are included in the Food for Progress Initiatives, Mr. Chairman. There have been a number of studies.

Ambassador Keatings' report, which you may be familiar with, emphasized how we can use food as a food first policy to help develop the economic and encourage private sector investment in developing countries to have long-term import for American agriculture in terms of our export and commercial trade. It is simply a priority direction using food as a food first priority. That has slipped considerably in our economic assistance programs as opposed to DAMS, all of which may be important, but we need to bring back the focus that food is a way to help countries and to use it in terms of making commercial ties between our country and developing countries.

We will be happy to give you further——

Senator **Boschwitz**. I agree that was done more successfully in the earlier days of the programs.

Dr. **Bader**. We will get some more clarification on that.

Senator **Boschwitz**. Thank you very much.

[The following information was supplied by Dr. Bader:]

National Commission on
Agricultural Trade and Export Policy,
Washington, DC, March 19, 1985.

The President of the United States,
The White House,
Washington, DC.

Dear Mr. President: The National Commission on Agricultural Trade and Export Policy, an independent advisory body established by law with members appointed by the President, the Speaker of the U.S. House of Representatives, and the

President Pro Tempore of the U.S. Senate, has in the course of its recent deliberations examined the effect of cargo preference on U.S. agricultural exports.

Members attending the last Commission meeting held in Washington, D.C., on March 8 and 9, have asked me to write to you in their behalf to inform you of the Commission's strong opposition to current cargo preference law and to any extension of cargo preference requirements to agricultural export programs formerly not subject to this requirement. The Commission has found that cargo preference requirements have a seriously damaging impact on U.S. trade and the Commission urges you and the Congress to take immediate steps to repeal all existing cargo preference laws.

The Commission's position on this issue has been strengthened by evidence stemming from a February 21, 1985, ruling of the U.S. District Court which expands the requirements of the Cargo Preference Act of 1954 to include the U.S. Department of Agriculture's "blended" credit export program. This program was previously an effective tool for protecting U.S. economic interests in world markets. It is strongly supported by the U.S. Department of Agriculture, the Congress and the agricultural community. The Court's ruling effectively kills what had been a highly successful export promotion program by eliminating the incentive which it was intended to offer to overseas customers of U.S. farm products and commodities. As a result, $500 million in export sales of wheat and wheat flour will be lost through the remainder of FY 1985, at a total loss of $1 billion in economic activity to the farm and nonfarm sectors.

Advocates of the extension of cargo preference to the "blended" credit program hope to capitalize on a shipping subsidy amounting to $25 to $30 million. However, the U.S. Department of Agriculture has indicated that no shipments will move under the programs so long as the ruling remains in effect. U.S. ship owners will, therefore, receive no subsidy payments as a result of the Court's action. The Commission fails to see the logic in a ruling that provides no material benefit to U.S. maritime interests, but which will cost the U.S. agricultural sector dearly. This level of economic sacrifice to fulfill the principle of cargo preference is completely unjustified.

Legislation to exempt all U.S. agricultural export programs from cargo preference is strongly endorsed by the Commission. If a strong U.S. merchant fleet is necessary—and the Commission does not necessarily dispute this goal—other means of achieving this goal should be developed.

The National Commission on Agricultural Trade and Export Policy has been established by law to advise you and the Congress on necessary steps to improve circumstances facing U.S. agriculture in world markets. Repeal of cargo preference would signal strong resolve by the Administration and Congress to carry out such improvements. The Commission urges you to act expeditiously to remove all cargo preference requirements.

With warm regards.

Sincerely,

KENNETH L. BADER, *Chairman.*

Senator BOSCHWITZ. Senator Mattingly is now here.

Senator Mattingly, we are pleased to have you here this morning.

Senator MATTINGLY. Thank you very much, Mr. Chairman.

Senator BOSCHWITZ. I am not going to even put the timer on.

Senator MATTINGLY. Thank you.

STATEMENT OF HON. MACK MATTINGLY, A U.S. SENATOR FROM GEORGIA

Senator MATTINGLY. Mr. Chairman, I have a brief statement that I would like to make with regard to the promotion of U.S. agricultural exports. We are all aware of the problems which our American farm producers have been facing over the past 4 or 5 years. I will simply remind my colleagues of the spiraling inflation and outrageous interest rates of the late seventies. Toss in a grain embargo and contradictory, self-defeating Government programs which financed and encouraged expansion and greater production on the one hand while simultaneously trying to reduce production on the other hand to raise market prices. Add to that various natural disasters, droughts, and the recession which took hold in 1980 and resulted in reduced Federal revenue, increased outlays for unemployment compensation, food stamps, and other social services.

Despite all of our setbacks, agricultural exports have remained one of the bright spots of our international balance of trade. It is worth noting that the strength of the U.S. dollar and foreign export subsidies and trade barriers have deeply eroded this once strong export sector. Without this export outlet, the magnitude of our domestic farm producers' economic woes would be multiplied tremendously.

What we need to consider is an agricultural export policy that understands "reality." We are not losing our foreign agricultural markets solely because of the high value of the U.S dollar or just because USDA policies may not coincide with the foreign policy considerations of the White House or the State Department. We—and by "we" I mean the Congress, the administration, and the U.S. farm community—need to understand and identify exactly what an unfair foreign agricultural trade barrier is and exactly what forms foreign subsidization of their agriculture industry can take. Then the President of the United States, with direct support from the U.S. Trade Representative, must directly address the particular problem with the world leader or leaders involved. This direct high level negotiating power is already allowed the President under a variety of existing laws. Only the President himself, it seems, will be able to effectively convince our trading partners that they will not be given an enternal grace period to conform to free and fair trade standards. Only negotiating at the highest levels will enable the trading nations of the world to agree to common standards and interpretations of those standards. I guess you would call it, the rules of the road.

Mr. Chairman, I appreciate the opportunity to testify before this committee today. As you are aware, in the past I have brought before this esteemed committee legislative proposals regarding international trade in agriculture that the committee has graciously considered and incorporated in its own proposals. I commend you, Mr. Chairman, and the members of this panel for your continued efforts on behalf of this country's farmers, particularly those who export. Let me close by saying that "reality" and "action" based on current law is the agriculture export philosophy we must have. The catalyst for this philosophy is not in this room, Mr. Chairman, but sits in the Oval Office of the White House.

The only alternative I can suggest is that perhaps the U.S. Government ought to consider buying all the farms in the United States. Then the Government itself can try to operate under the programs we have negotiated with other countries. Obviously I am being a little bit facetious there, because I do not think the Government would make any profit at all. It would be worse than what we currently have, but we may not be as far away from that alternative as we might think. So, what I am trying to say is we need to really consider the seriousness of the situation and act accordingly.

Senator BOSCHWITZ. I was somewhat shocked when you said that the Government should buy all the farms. I did not think it fit into your philosophy.

Senator MATTINGLY. It does not. I was saying that tongue in cheek. But, Mr. Chairman, we have a multitude of laws on the books of the United States with respect to trade. In fact, this past year, we passed the 1984 trade law, and in it there is a reciprocity section. That is the law of the land. Obviously, nothing has happened since that bill was passed. I see when we talk about it on the floor of the U.S. Senate with respect to Japan the other day that things have not changed one bit. I have noticed in the paper today that Japan is going to send a group over to talk to us and tell us to be patient once again.

Senator BOSCHWITZ. Well, I noted in the Japanese-English newspapers that they said they felt the United States owed them for the last 4 years inasmuch as they showed some restraint, and they said that the Japanese must resist the hard bargaining of the United States, and they used those exact words and they, the Japanese, must insist on the principle of free trade.

So it is interesting how——

Senator MATTINGLY. It has to be the joke of the day.

Senator BOSCHWITZ. It is interesting to see how differently the two sides of the ocean look upon their activities. But hope always springs eternal, I suppose. We have been whispering into the ears of our foreign friends, competitors, for about 40 years now. We have whispered and said, free trade, and they have shaken their heads vigorously and gone out and done whatever they wanted. Now we have a Trade Ambassador, Trade Representative Clayton Yeutter, who is an old friend, who I recommended for the job together with others, and he had broad experience in agriculture, and hopefully we will be served well by Mr. Yeutter in that job. So that some of the problems about the foreign subsidization you spoke about and the first witness who we had, Dr. Kenneth Bader, who is the Chairman of the National Commission on Agricultural Trade and Export Policy, suggested certainly a more aggressive policy. Hopefully, that will happen, and I think that the Senate and the committee and the House have indicated in the last few days that they would support such an approach.

We thank you very much for coming and testifying and participating and presenting, on an ongoing basis, ideas to this committee which have been helpful to us and which we, indeed, find helpful in our deliberations.

Thank you, Senator.

Senator MATTINGLY. Thank you.

Senator BOSCHWITZ. Now, Mr. Fischer. R.W. Fischer, president of Soypro International, Inc., Cedar Falls, IA, and member of the President's Task Force on International Private Enterprise.

STATEMENT OF ROBBINS W. FISCHER, PRESIDENT, SOYPRO INTERNATIONAL, INC., CEDAR FALLS, IA, AND MEMBER, PRESIDENT'S TASK FORCE ON INTERNATIONAL PRIVATE ENTERPRISE

Mr. FISCHER. Thank you, Mr. Chairman. First, I want to thank you and Senator Helms, Chairman Helms, for the invitation to testify at this hearing on the provisions of Public Law 480.[1]

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[1] See p. 621 for the prepared statement of Mr. Fischer.

As you may know, some of us in Iowa had a hand in recommending agricultural programs that addressed the world's need for American farm products overseas some 35 years ago. Those efforts and some of those men contributed to the adoption of Public Law 480 in 1954. In my opinion, Mr. Chairman, that single act of the U.S. Congress has done more to rid the world of one of the four horsemen of the Apocalypse, the scourge of famine, than has any other act of any government in the history of the world.

Now, Mr. Chairman, we confront a resurgence of some of the old problems and the threat of new ones that call for the same kind of leadership we demonstrated at that time. First, chronic famine and malnutrition have surged up again in major parts of the world. The locations are different, but the human suffering is the same.

Second, in the midst of a hungry world, large surpluses of U.S. farm products clog our storage facilities, overhang our commodity markets, and lay heavily on the backs of our producers, many of whom really are in serious financial trouble, as I am sure you know.

Third, under our present Federal agricultural programs, those same surpluses also put a heavy demand on the Federal Treasury.

Fourth, the great chasm that splits the world between areas of surplus and areas of need is made up of conditions that stem from our human institutions, including the high value of the dollar, artificial prices in many countries, governmental restrictions to commerce in some other countries, and our own accumulation of redtape.

Fifth, a new problem is the drift of nations, including many of our best trading partners, into mercantilism: a host of protectionist devices combined with predatory export marketing which is aimed to disrupt the normal channel of world commerce. The Senate, of course, has been addressing that subject in another context.

As you know, Mr. Chairman, our committee of the President's Task Force spent 18 months studying these problems in great detail and, parenthetically, you might want to consider incorporating the section of the Task Force Report on Food Assistance and the Action Brief on Public Law 480, which I have here into the proceedings of these hearings.

We found that Public Law 480 programs have been chipped away year after year until they are far less adequate than they were under the Eisenhower and Kennedy administrations. Exhibit 1 shows what has happened in that respect with the funding and the resources and the effect of Public Law 480. There are two pages of that exhibit.

In addition, we found that a major and most effective part of the original act had been removed and urgently needs to be restored. Here I refer to the authorization to accept soft currencies for U.S. agricultural products delivered to recipient countries under Public Law 480.

Frankly, Mr. Chairman, in my estimation, that authority was removed by Congress because it had been badly administered in some major countries, a condition which might have been rectified short of congressional surgery.

We looked very carefully at the cost of Public Law 480 allocations of U.S. farm products to recipient countries, and we asked our foremost financial analysts this question: What is the net net cost to the U.S. Treasury of farm products we actually give away, as food relief, with no payment whatsoever either now or in the future?

To our astonishment, on a 3-year projection, we found the costs for our gifts to needy countries, in the context of our overall agricultural programs, are less than nothing. After 3 years, there is actually a net gain to the U.S. Government from giving away those products, and that is illustrated in exhibit 2 which shows the figures as projected on a multiple-year basis.

We also found that Public Law 480 allocations have become the captive of a vast network of interdepartmental redtape that reduces the program to one-third or even one-fourth of its proper effectiveness and, Mr. Chairman, exhibit 3 illustrates that very clearly. It shows the pattern of authorizations that have to be achieved for a Public Law 480 allocation to be made from the request from the foreign government, USDA developing the proposal, and then a subcommittee of AID, USDA, State Department, Treasury Department, Commerce Department, OMB, and the National Security Council, and then going back to agreements between the Embassy and the foreign governments and so on, and it is an absolutely impossible combination. Frankly, because Public Law 480 was an effective and popular program from the beginning, in our estimation, every department and agency with the least claim to its functions wanted a piece of the action, and it became a classic case of predatory turf grabbing by the administrative agencies.

As a result, Mr. Chairman, we had a host of bureaucrats, many of whom could not tell wheat from oats if their life depended on it, weighing in heavily on who should get what and for what use and under what terms under Public Law 480.

As a result, Mr. Chairman——

Senator **Boschwitz**. We ask you to move quickly through this and, once again, I tell the witnesses that I am going to abide by the clock and that they should spend not as much time describing the program which each one describes and which I think we have an awareness of, but rather discuss solutions.

Mr. **Fischer**. We found when we went to the President to recommend food aid to Africa, we could not recommend Public Law 480 because even he could not get it through in time to keep the people from starving. We also found that foreign currencies had been delivered into the hands of government and that our food program, Mr. Chairman, had been used to increase centralization of governments that were already highly centralized.

Now we recommend, and let me say this, which I think is very important to these deliberations, Mr. Chairman, you will be told and you will hear that soft currency sales of Public Law 480 commodities for low prices depress the prices of farm products overseas and drive their farmers out of business. We found with careful studies that that is not so. Those depressed prices were put in place by governments holding the prices down to supplement the incomes of their urban populations.

Now we think the United States has a great opportunity to improve the living conditions of people around the world with the Public Law 480 program and to improve benefits for the United

States by two primary measures, Mr. Chairman. First, by supplying a larger share of aid in the form of food—Ken Bader addressed that—and to accept local currencies again for those foods and, second, by using a portion of those local currencies to provide low-cost loans to the small businessmen, farmers, and entrepreneurs in the foreign countries.

In country after country and village after village, we saw people who could make things go if they had just a little bit of money to work with, and we saw the Commonwealth Development Corporation doing it successfully with middle-sized enterprises.

So we recommend, Mr. Chairman, a much larger share of our foreign assistance budget be channeled into Public Law 480 by doubling its resources. We recommend that the full original authority of title I be restored and that the foreign currencies be kept in the hands of the U.S. Government rather than being turned over to local governments. We recommend that those funds be used to support our U.S. Government programs and that they be used to increase the funding of our farm commodity groups and their foreign market development programs which have proved to be highly cost effective both to the economy and to the Government. And, of course, we are recommending that they be used for small loans.

Our studies indicate that this is the type of activity that will stimulate the living standards in recipient countries to the point where we can classify it as the tide that raises all boats in one country after another.

We recommend, Mr. Chairman, that these programs be administered by the USDA. Our Foreign Agricultural Service understands local needs, local markets, and local business conditions overseas, and they also understand farm commodities, production, transportation, storage, marketing, and utilization, and they know the markets over there. They have developed reports there and, Mr. Chairman, we think they are equipped to handle the job without having a multitude of administrative fingers in the pie that militate against its effectiveness.

We have the resources, we have the capability, and in the opinion of the task force, we have the opportunity to leave a great heritage of humanity, wisdom and individual liberty to the countries of the world. And I trust, Mr. Chairman, that this committee will put us on the road to that objective.

Senator BOSCHWITZ. I find your testimony very interesting, and I have never personally made a study of the difficulties of implementing Public Law 480, but I will indeed look into that and perhaps be back to you. Your ideas of expanding title I in the manner in which you suggested were also very interesting. I think it is a very well-balanced statement.

I also found this table very helpful. Is this chart, the Public Law 480 exports as a percentage of the total, in tons or in dollars?

Mr. FISCHER. Tons.

Senator BOSCHWITZ. That is tons?

Mr. FISCHER. Yes; you see what has happened?

Senator BOSCHWITZ. Yes; I see that. It is interesting and this is a very good historical perspective that you gave.

Senator Melcher, you came in in the midst of this interesting testimony. Do you have any comment?

Senator MELCHER. Mr. Fischer, your charts here on exhibit 3 and exhibit 2 are very good. Exhibit 3 and exhibit 4 show the hurdles that the applicant country or the applicant private voluntary organization must go through to get a Public Law 480 program approved for a country.

Now, let us refer to figure 4 which gives all the difficulties of getting an application for a private voluntary organization approved. Take that first block, the program sponsor request by the voluntary agency. After all, the easiest place to stop something is before it started. What would you say about an AID official in a country that asked in a joint meeting with private voluntary organizations and other interested groups, "how much longer are we supposed to feed these people?"

Mr. FISCHER. I think that would be a fair question, Senator, and I think that the answer to that would be we need to feed these people until they have enough to sustain themselves and can produce enough to sustain themselves one way or another, and what we need to do is use our food aid in such a way that it accelerates their ability to sustain themselves.

Senator MELCHER. Exactly.

What would you say is needed if within 1 mile of a meeting room in a fairly lush U.S.-owned building, there were people obviously malnourished and with incomes, because they are out of work, that equate to about $10 or $12 for a month per family?

Mr. FISCHER. I would say the first thing they needed, Senator, is food. The first thing they need is food.

Senator MELCHER. Would you not also say that the AID official ought to get within easy walking distance of where the food is needed before he asks that question?

Mr. FISCHER. I would certainly say that but, Senator, that is one reason I recommended that we use our Foreign Agricultural Service people to do that because I have traveled this world for 25 years and I know most of these folks and I have been there. These are the people who get out into the country and know what is there and know where the need is.

Senator MELCHER. I do not know whether we are going to get that changed or not. In this instance, the Foreign Agricultural attaché would not have asked the question because he had some more basic knowledge than the AID official had.

Let me point out to you while you testified on Public Law 480, section 416 is also available.

Mr. FISCHER. Yes.

Senator MELCHER. That has been effectively blocked in many instances by the Department of Agriculture.

Are you aware of Assistant Secretary Amstutz' long litany of questions that leads him to believe that perhaps the dairy supplies or the wheat or wheat products would displace some market?

When he first mentioned that to me a year ago or so, I thought he meant displace the foreign market, but he is also talking about displacing a potential sale by a U.S. firm.

Mr. FISCHER. Well, Senator, Mr. Amstutz has not been involved in these programs, I think, quite as long as some of us although I have great respect for his capability. But the truth of the matter is that we have had the provision for additionality in Public Law 480 and its administration for years, and the programs are employed. I think this also applies to section 416 and products that are sent under firm agreements in which the amount of food being purchased from the foreign market will continue at least at its current level or at its level at the time the allocation is made; and the food coming in under either Public Law 480 or section 416 is to be additional to the food that would otherwise be purchased.

Well, of course, as long as that is administered carefully, there is not a problem in that respect. I cannot think that careful administration of that matter is vastly difficult.

Senator MELCHER. I do not either. I certainly agree with your enlightened testimony.

I have one additional question to ask you. I once asked Bob Bergland after he was out of the Secretary's office a few years what he would do differently if he were Secretary of Agriculture again?

He said:

> John, I do not think I would accept the position again unless I could have some working relationship with the White House, with somebody right there that has as much influence with the President as OMB or any of the rest of the Secretaries that might approach.

In other words, some sort of an agricultural food czar for trade and humanitarian programs such as Public Law 480 and 416.

Would you support such a recommendation or such a requirement?

Mr. FISCHER. Senator, I would support it fully and, as a matter of fact, our task force came down on this. We said in the task force in our full report, which is here, we said that international economic policy for the United States is every bit as vital as our defense policy and, in fact, the two are intricately related. We therefore recommended to the President that he establish a National Economic Council parallel to the National Security Council in the White House, that National Economic Council to include, first of all, a Director, of course, but to include a representative in the White House for such vital international programs as those of the Department of Agriculture and, of course, the Department of Commerce. So I would certainly agree with former Secretary Bergland in this matter. If I were looking at that office, I would certainly take that same position.

Senator MELCHER. I certainly thank you for that.

Referring to section 416, wheat was added about a year ago to the dairy supplies that are available under section 416. While we have in CCC hands 360 million bushels or so and in farmer-owned reserves another 670 million bushels, and that is going up, there has not been one section 416 application for wheat from the United States approved. It simply has not crossed that hurdle because Assistant Secretary Amstutz continually raises this question. With the additionality what is needed should be approved, but mind you, not one has been approved as of this date after a year's time.

Mr. FISCHER. I was not aware of that, Senator. I think it is unfortunate.

Senator MELCHER. Thank you very much.

Senator BOSCHWITZ. Thank you, Mr. Fischer.

I note Senator Quayle is here and he wishes to testify. I also note that Senator McConnell has arrived and, Senator McConnell, do you have an opening statement or any statement that you wish to make as a member of the committee?

Senator McCONNELL. Thank you, Mr. Chairman.

I did not hear the testimony so I have no questions, but I do have an opening statement which I would like permission to put in the record.[1]

Senator BOSCHWITZ. Without objection.

Senator McCONNELL. Thank you very much.

Senator BOSCHWITZ. I might comment, Mr. Fischer, I thought that your testimony was very helpful, very pointed, and gives the committee a good deal of material to work with.

Mr. FISCHER. Thank you.

Senator BOSCHWITZ. Senator Quayle.

STATEMENT OF HON. DAN QUAYLE, A U.S. SENATOR FROM INDIANA

Senator QUAYLE. Thank you very much.

I would ask at the outset unanimous consent that my entire statement be made a part of the record.[2]

Senator BOSCHWITZ. Yes, without objection.

Senator QUAYLE. Given the need for brevity, let me briefly summarize the major points of the proposal which I would like to bring to the attention of this committee.

The purpose of my testimony today is to support a bill I introduced on the first day of this Congress. That being the Agricultural Trade Enhancement Act of 1985. I am delighted to report that Senator Boschwitz is an original cosponsor of this measure, a fact which will probably enhance its prosperity and opportunity for passage under the agricultural bill.

Senator BOSCHWITZ. Undoubtedly.

Senator QUAYLE. Briefly, Mr. Chairman, I think that as we look at agriculture the best thing we in Congress can do for the American farmer is to reduce the deficit, and thereby reduce interest rates, in order to increase farm income. Net farm income, at least in my State of Indiana, seems to be the dominant theme and the dominant issue that is so on farmers' minds. The best way to improve prices, or at least increase net income, would be to lower overhead. The greatest overhead right now happens to be interest payments and the best way to lower interest rates is through deficit reduction; a process which we began recently in the Budget Committee.

We will wait and see what happens on the Senate floor, but we must reduce the deficit. In fact, I support the direction the administration is taking toward a market-oriented farm program. I think we obviously may have to make such a transition a bit slower than the administration would propose, but I certainly think the direction they are taking will ultimately not only assist us in reducing the deficit, but eventually be helpful to the agricultural community in general. A point which is certainly worth noting.

Mr. Chairman, I would like to spend a couple of minutes on the issue of trade. The farm situation is an issue that probably is somewhat encumbered, or at least identified with the overall trade issue. Trade seems to be emerging as one of the key issues in this Congress. I think it is certainly one of the key issues of this decade and may determine how this Nation, in fact, is going to move forward with productivity, and how we are going to assure fair free trade.

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[1] See p. 611 for the prepared statement of Senator McConnell.

[2] See p. 612 for the prepared statement of Senator Quayle.

I do not think we should resort to any type of protectionist legislation. We are not an isolationist country. We are interdependent with other countries. We have helped other countries emerge from the post-World War II era, to realize an industrial standing, and these advantages have obviously shifted and developed over time.

We are seeing international competition, but as we see international competition—and we certainly welcome it—we feel that it must be practiced on a fair and equitable basis. A sense of fairness has got to be part of the program, whether it is in our relationship with Japan, and our not having full access to their markets; or in the existence of a double standard, where our markets are open and theirs are not.

I think the idea that we can sit back and allow subsidized commodities from other countries to enter the world market, much to the detriment of our farmers, in Indiana, and in this country, is wrong. Therefore, I think we need to fight fire with fire. We have got to say we are going to continue to honor our agreements, as we always have; that we are goinq to continue to export, as we want to see happen; but, we are going to take a far more serious try at identifying these unfair trade practices. Then we must develop some sort of a remedy, and that is the key and the essence of the Agricultural Trade Enhancement Act.

I might just briefly outline the legislation, Mr. Chairman. It has basically three major components, all three of which deal with trade. The first two dealing with how we can get a handle on unfair trade practices.

First, we would establish an interdepartmental agricultural trade committee, cochaired by the U.S. Trade Representative, and the Secretary of Agriculture. Other representatives on this committee would be chosen by the President, and they would have an interest, and a background in agricultural world trade.

The tasks of this committee would be to study and to report to the President within 6 months, because I think it is a very timely issue, and very important that we begin the program right away. The committee would catalog, as best it possibly could, the unfair trade practices that exist, and identify such practices on a commodity by commodity, country by country basis.

The second objective, which would probably be even more important than the identification of the subsidies, is what kind of remedies might the committee, in fact, suggest. How could we get the level playing field that everybody wants to see, and how can we provide equity in the marketplace.

The second part of this bill deals with a potential remedy that might be employed. What my bill would do is establish an intermediate term credit program within the CCC. This would provide either guaranteed or direct credit to countries that would be identified as eligible middle-tier developing countries.

In other words, these might be countries that do not qualify for concessional sales or forgiveness of loans, but ones that would be just in between, such existing programs nor able to qualify for commercial transactions with some of the international financial institutions, but the Nations of a size somewhere in between.

We would also extend the payback period to, from 3 to 10 years, under this proposal.

I might point out, unlike many existing programs, the interest rate would be much closer to the market rate, rather than below market rates. I think the authorization should be a minimum of $500 million per year, to allow this type of remedy to be appropriate.

Finally, Mr. Chairman, this legislation strengthens the existing contract sanctity laws, and my bill would prohibit the use of embargoes on farm products for longer than 60 days without congressional approval, with the exception of war.

Mr. Chairman, that is an outline of the Agricultural Trade Enhancement Act, and I would encourage this committee to consider it during their deliberations. I think it is an important initiative; one that is not only timely to the discussion of trade, but one that is vastly important to the farmers in my State, where we export over one-third of our products. The farm community and the Nation are very dependent on open markets, adequate access to those markets, and it is critical that we develop a dependable and energetic export trade policy.

I do believe we are hindered right now with many unfair trade practices. It is time to stop being a patsy, if I may use that term, and to say to the world, we are on the block, too. Our agricultural community wants to be productive. We are productive, and we are going to be in this game. We are going to be competitive and demanding, more so than in the past.

I think with the inclusion of this legislation we would certainly begin to realize these principles.

I thank the Chair.

Senator **Boschwitz**. I thank you, Senator Quayle.

As you know, I agree with your approach, and the idea of a cataloging of not only the problems, but also the recommended solutions would be a large measure of the steps that have to be taken to achieve those things, because I think that a lot of people talk about them, but have not organized in their own mind, particularly in this body, where so much has to be done, and we go from pillar to post.

I thought you were going to report about your interesting meeting this morning. I hope some progress has been made, but we will discuss that later in the day.

We thank you for coming.

Senator McConnell or Senator Melcher, either one of you have a question of Senator Quayle?

Senator **Melcher**. No, I have no questions, but I want to commend him for his statement.

I hope we can carry out some of your recommendations.

Senator **Quayle**. Thank you.

Senator **McConnell**. I also want to commend the Senator for his outstanding position on a lot of other measures as well.

Senator QUAYLE. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Now we have Henry Voss, who Senator Wilson wanted to introduce.

Mr. Voss is president of the California Farm Bureau, and he is representing the entire Farm Bureau this morning.

Senator Wilson was here earlier and expressed his regrets at not being able to stay. He is in the same place that Senator Quayle is going to now.

STATEMENT OF HENRY J. VOSS, PRESIDENT, CALIFORNIA FARM BUREAU FEDERATION, AND MEMBER, AMERICAN FARM BUREAU FEDERATION BOARD OF DIRECTORS

Mr. Voss. Thank you, Mr. Chairman.

It is a pleasure for me to be here this morning to represent the American Farm Bureau Federation on a very important issue to agriculture in this country.

The American Farm Bureau Federation is the Nation's largest general farm organization with a membership exceeding 3 million member families in 48 States and Puerto Rico. It is on the Federation's behalf that I outline Farm Bureau's position regarding the export title of the farm legislation designed to replace the Agriculture and Food Act of 1981 when it expires this year.

Export legislation is a priority issue for Farm Bureau. Our farmer and rancher members produce virtually every type of commodity grown on a commercial basis in this country; those directly affected by Farm and Export Programs and those that do not come under the authority of this legislation.

The policies that our membership adopted at our annual meeting in January are the result of extensive deliberation at the county, State, and national levels of our organization.

U.S. agricultural exports made solid gains during the late 1960's and during the decade of the 1970's. However, during the 1980's, our farm exports have fallen sharply from a value of nearly $44 billion in U.S. fiscal year 1981 to an estimated $35.5 billion this year. More importantly, the U.S. share of total world agricultural trade has dropped.

U.S. farmers are concerned over this turn of events. Analysts list among the causes: First, world recession; second, the global debt situation; third, strength of the dollar in relation to other countries; fourth, U.S. agricultural price support policies; fifth, growing protectionism; and sixth, unfair trade practices. We realize there are a number of other contributing factors.

We support U.S. trade negotiators in their efforts to resolve trade issues. Farm Bureau has supported the Tokyo Rounds of GATT and subsequent implementing legislation. We recognize that higher living standards depend upon increased economic growth in the United States and the EEC together with mutually beneficial trade among nations.

Thus, Farm Bureau supports freer trade efforts. It is becoming more difficult for U.S. farmers to maintain a freer trade stance as protectionism surfaces all over the world, and unfair trade practices are employed by our competitors.

The EEC is now a major net exporter of grains, sugar, dairy products, poultry, and beef, assisted by huge export subsidies.

Our grain and cotton stocks were substantially reduced by the PIK Program, except for wheat. Our competitors continue to have severe agricultural oversupply problems.

How do we resolve these excess market supply problems without both the United States and the EEC engaging in a trade war to gain market outlets? How do we gain better access to markets in Japan and the EEC where protected home markets are integral parts of public policies?

U.S. farmers say they are tired of taking most of the world's agricultural production adjustments and serving in the role of residual supplier.

U.S. farmers are demanding more aggressive export actions while pushing for reform of U.S. farm program pricing and stock policies. It is likely that future U.S. farm policy will reduce the role of the Government in providing a price umbrella for our competitors, while U.S. farmers carry the stocks, reduce production, and U.S. taxpayers foot the bill.

Farm Bureau supported legislation to freeze U.S. target prices and lower support levels in order to reduce production of farm crops and dairy products and increase market utilization.

The U.S. farm programs aim at reducing production, those of the European Economic Community provide incentives to increase output, which is then disposed of through subsidized export sales.

Some U.S. farmers are asking that our Government meet the use of foreign export subsidies and subsidized export financing with similar U.S. programs. Thus far, the Farm Bureau has supported only limited use of such subsidies to let our competitors know that we too can play that game.

However, we see retaliatory pressure building as U.S. market share is perceived to be lost to subsidized exports of competing countries. The situation is not healthy in an economic or a political sense.

The U.S. Congress has taken note of this capture of markets by the use of export subsidies. Section 1201 of the Agriculture and Food Act of 1981 directed the Secretary of Agriculture to formulate a Special Standby Export Subsidy Program for possible use to neutralize the efforts of foreign countries who capture markets with such subsidies. Thus far, this authority has been used very little.

Our organization has been concerned with the need for better access to the Japanese market for certain agricultural commodities and products and with the financial crisis which is hurting U.S. agricutural sales in other developing countries.

While we were pleased that Japan increased the beef and citrus quotas after long and tough negotiations, they need to go much further in increasing access to their market. They should follow the lead of the United States which has decided not to extend the quotas on imports of Japanese cars.

Currently, developing countries take about one-third of our exports and are our best potential customers. As their economies grow, we have more market opportunities. Therefore, we need to do what we can to help develop their economies through food and economic assistance programs.

It is much easier to define the problems facing us in world markets than to find feasible solutions to those problems. I would like to share with you some thoughts regarding certain ways that some of these problems facing world markets might be addressed in a particular manner.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits, and through the use of Public Law 480, or Food for Peace Program. These programs should be continued and improved.

As a member of the Carlucci Commission on Foreign Assistance last year, Bob Delano, president of the American Farm Bureau Federation, recommended that Public Law 480 export tonnages be doubled over present levels, and that multiyear funding be made available to Public Law 480 recipient countries.

In view of the need for food, which has been made worse by the African political and famine situation, we believe that a much stronger Public Law 480 program is justified, and will lead to better U.S. cash markets as economic development improves in recipient countries.

Regarding CCC export credits, it is regrettable that the CCC credit revolving fund, which was part of the 1981 farm bill, was never funded and activated. There are still valid reasons for incorporating the revolving fund in the 1985 farm bill with funding made available to make it an effective export tool.

An intermediate CCC Export Credit Program is needed to take care of export credit needs for terms of 3 to 7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference.

We believe all agricultural exports should be exempted from cargo preference requirements, whether commercial or Government assisted. There are other ways of financing a strong merchant marine without hurting agricultural exports. We should not reduce our farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

There may be some barter opportunities with some countries that need food and have oil or other materials or commodities that we need. We should not foreclose any such opportunities, but rather should seek ways to gain exports wherever possible.

Our trade negotiators must have the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies that have eroded U.S. overseas markets. In this respect, we would support what might be called a Bonus Export Program.

Under such a program, "bonus" tonnage of farm commodities and products would be made available from CCC owned commodity stocks to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

Mr. Chairman, these are some recommendations that we would like to see examined and considered by this committee as the export title of the 1985 farm bill is written.

I believe that in previous legislation the production side of the equation has been given more attention than the export side. In the new farm bill, we need to focus very strongly on the export title.

We must be more aggressive in export markets. This will require the devotion of considerable resources to exports, but it will be cheaper in the long run than expensive acreage reduction and storage programs.

Thank you.

Senator **Boschwitz**. I thank you very much, Mr. Voss.

I note that Senator Zorinsky is here, also I would like to note that Senators Wilson, Leahy, Melcher, Zorinsky, McConnell, and myself, that is approximately eight Members of the Senate who have been here during the course of the morning. While each one of them has additional subcommittee obligations, it is interesting to note that so many of the Members recognize the importance of agricultural exports and the problems that are being sustained in this area.

I, as a matter of fact, note that you talked about cargo preference, Mr. Voss.

I have to now leave, and I am going to ask Senator McConnell to take the chair. I have to leave to make a statement, together with the Secretary of Agriculture, and the president of the Soybean Association about cargo preference, and the difficulties that have been imposed upon us by the recent court decision.

I am going to ask Senator McConnell to come and take the chair.

Senator Zorinsky, do you have any statements, remarks, or questions?

Senator **Zorinsky**. Mr. Chairman, I ask unanimous consent that my statement be placed in the record in its entirety. I have no questions.[1]

Senator **Boschwitz**. I thank you.

Senator Melcher.

Senator **Melcher**. Mr. Voss, on behalf of the Farm Bureau, you are recommending the Bonus Export Program, which, as near as I can determine, is what we call export PIK. Is that a fair assessment?

Mr. Voss. I think that could be a fair assessment, yes.

Senator **Melcher**. I have had very vigorous objections to the way PIK was used for producers. However, I also advocated the soundness, in some instances, of an export PIK arrangement.

Has the Farm Bureau considered what practicality there might be in some specific reciprocal trade agreements with countries we have long dealt with?

Mr. Voss. I think that is a consideration that has been batted around for several years now. I do not think that we have a grasp on how we can have a reciprocal trade agreement at this time with the environment we find ourselves negotiating in, or talking in. I think it is possible. I think it would take a change of emphasis and direction from this Government to cause that to happen.

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[1] See p. 610 for the prepared statement of Senator Zorinsky.

Senator MELCHER. Is it not about time we had a change in emphasis and direction from our Government?

Mr. VOSS. I think we need to do something, or we are not going to be here too long.

Senator MELCHER. Thank you.

Senator McCONNELL [presiding]. Are there other questions from any of the Senators?

[No response.]

Senator McCONNELL. Mr. Pennell, you are next.

STATEMENT OF RICH PENNELL, SENIOR VICE PRESIDENT, HARVEST STATES COOPERATIVES, AND CHAIRMAN, TRADE POLICY SUBCOMMITTEE, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. PENNELL. Mr. Chairman, I am going to abide by the recommendation that Senator Boschwitz left and ask that my full statement be included in the record.[1]

Senator McCONNELL. We would appreciate that.

Mr. PENNELL. I would just like to hit a few of the highlights.

I am Rich Pennell, and I am senior vice president of Harvest States Cooperatives in St. Paul, MN, but today I am appearing as chairman of the Trade Policy Subcommittee of the National Council of Farmer Cooperatives.

Many of the observations that I wanted to make in describing the problem have already been made. I have no intention of repeating them, but I would like to read just a little excerpt from a policy resolution that was passed in January of this year at our annual convention relative to agricultural trade policy.

The National Council is a strong supporter of fair trade. Despite the important role which agricultural exports have played over the last decade, the U.S. Government has failed to develop a long-term agricultural policy aimed at creating an international climate where U.S. exporters can compete on a fair basis. And certainly this is so obvious today.

In one of the exhibits attached to my other statement, I have enumerated a number of the imports, for example, that have been either contemplated or actually implemented in the grain area: Scandinavian oats into the Midwest, the very celebrated Argentine wheat that was about to be imported in through the gulf, South American soybean meal which can work into Tennessee now for feed compounding. The same thing is true, of course, in displacing our markets in Mexico, and Korea, and other destinations.

Some of those plans have been changed. For example, there was a cargo of Chinese corn headed for Stockton, CA, that was subsequently diverted to Mexico, but that was done on the basis of political considerations, certainly not economic ones.

So the import picture for grains is a very alarming one and I think deserves your very careful consideration.

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[1] See p. 629 for the prepared statement of Mr. Pennell.

The Department just released last week the open export sales, unshipped sales for the current marketing year, and if you compare those to 1 year ago at the same date, our outstanding sales for wheat and products are down 44 percent, corn is off 26, soybeans 37 percent, cotton 20 percent. These are certainly alarming proportions.

I do not think that it would behoove me to repeat some of the things that have been said about the overvalued dollar, but certainly it is safe to say that we have an export tax due mostly to macroeconomic factors that also need to be addressed.

I think it is important to remember that our farmers cannot wait for the basic bill to correct some of the situations with which they are faced. If you use 1981 as an example, it was December before it was actually signed into law and that would mean that we would be at least into the 1986 harvest before anything could be effective and, frankly, it is not feasible to wait 18 months for action. So the administrative actions that we feel are needed to boost exports would include things such as we talked about earlier, the very discretionary and careful use of CCC stocks as export incentives; the use of export credit guarantees that have already been authorized, and, the expanded use of Public Law 480.

I think that we must also, and I am no preacher and seldom preach, but we must elevate agriculture to the highest priority with regard to future trade negotiations. In terms of legislative action, we certainly support and are delighted with the support and leadership you have shown in terms of doing something about cargo preference. We believe that that court decision went much farther than it needed to or was intended to, and we need correction there.

Turning to the new farm legislation itself, we think there are three general areas that must be addressed. The first is domestic programs must permit us to be competitive and yet they have to be applied with sufficient care so the rug just is not suddenly pulled out from under our farmers. We had discussed and proposed a marketing loan approach which I think most of you are familiar with. The commodity on a nonrecourse loan, if it were redeemed, would either be redeemed at the marketing loan advance price, or at the world market price level, whichever were the lower. This would certainly communicate the proper signals to our competitors abroad and yet continue to provide our farmers with the assurance they need so that they know where they are going to be able to come out on their loan.

Second, a strong trade title is obviously needed to counter unfair trade practices that have been discussed, to enhance world demand and at least try to compensate for the repercussions from the overvalued dollar. Specifically, the legislation should provide for a broad spectrum of export credit programs tailored to fit the diverse needs of recipient countries, designed to move those nations from aid to trade in the evolution and application of the program.

The third point, of course, are our humanitarian needs and responsibilities which we feel can be achieved through the expansion and revision of the Public Law 480 with an emphasis on multiyear programming, on market development and things to aid the development of the infrastructure in each recipient country so they will provide for subsequent larger purchases of U.S. agricultural commodities.

I think nobody said today, nor have I heard for a long time that exports are the lifeblood of American agriculture, but certainly the ultimate proof that they are is very much in evidence or we would not be here discussing this subject. Because as exports have fallen, farmers have fallen on very hard times. Unless we have a strong overseas demand for products, the lifeblood of American agriculture is certainly being drained away.

I appreciate this opportunity to be with you. I would be delighted to answer any questions, and we look forward to working with you on initiatives during 1985.

Senator McCONNELL. As everyone has noticed, our chairman has joined us.

The CHAIRMAN. I know Rich Pennell well. He is better looking and younger than I.

Mr. PENNELL. I have got to say yes on both counts, but do not ask me to say more.

Senator McCONNELL. Mr. Chairman, do you have anything you would like to say?

The CHAIRMAN. I do not agree with the administration's——

Senator McCONNELL. I would like to give you the chair. You are being very gracious to me.

The CHAIRMAN [presiding]. I do not agree with the administration's overall trade policies because they are not working fairly for the American people, not only agriculture but across the board if you look at textiles and shoes and gloves and go right down the list.

On the other hand, we all believe in free trade, say we do, just like we pledge allegiance to the flag of the United States of America: One Nation under God, indivisible with liberty and justice for all. I wonder how many people mean all of that when they say it.

But the point is, and I think you made it very well, that trade is not free if it is not fair, and it has not been fair and is not likely to be fair until this Government serves notice that we have had enough. There are all sorts of things that I have been talking about to and with the administration, including global quotas. They are imposed by others on us.

Do you not think global quotas would be fair in a proposition like that?

Mr. PENNELL. I have not really thought it through and I am not familiar with the concept, but it certainly would be a constructive approach, no question about it.

The CHAIRMAN. I thought your statement was very fine and we cannot wait 18 months.

Mr. PENNELL. No, sir.

The CHAIRMAN. Are you encouraged by Clayton Yeutter's nomination?

Mr. PENNELL. Yes; I think he is well qualified and very soundly experienced. He is a very forceful person from my observation.

The CHAIRMAN. Bill Brock is sort of a favorite around this place, having been one of us, but Clayton, in all of my experience with him, does understand the problem. I am encouraged that he may be, as you put it, forceful.

Mr **Pennell**. I believe he is.

The **Chairman**. And work something out.

Senator Zorinsky.

Senator **Zorinsky**. I have no questions, Mr. Chairman.

The **Chairman**. Senator Melcher.

Senator **Melcher**. Mr. Pennell, is there room for reciprocal trade agreements on a specific country basis?

Mr. **Pennell**. I think that is certainly feasible in a lot of areas, yes.

Senator **Melcher**. Do you see a need for some provision requiring a sort of agricultural trade czar in the White House?

Mr. **Pennell**. I heard you discuss that earlier and, obviously, we need a better ear and a better mouth there, and I think that would be constructive. I do not know what sorts of responsibilities that would carry. It is kind of hard to visualize it. But as you described it this morning, I think it would be a super idea.

Senator **Melcher**. I am not going to put this in the form of a question because I know you agree, but I will make the statement.

It is about time we stopped talking and started doing what we know only makes common sense on trade.

Thank you very much.

Mr. **Pennell**. Thank you.

Senator **Dixon**. In the absence of the chairman, I wonder if my friend from Kentucky would assume his responsibility and chair the committee?

Senator **McConnell** [presiding]. I am going to do it from down here.

Senator **Dixon**. I was delighted to hear the chairman's comments about Clayton Yeutter and his nomination to be our International Trade Representative.

Speaking as a person of the opposite political persuasion, I want the record to show I have known him for a good long period of time. I have immense admiration and deep personal friendship for the gentleman in question and I would like the record to show that at the time of the nomination of Mr. Brock to become the Secretary of Labor, I wrote a letter to the President, one to Mr. B. Oglesby, an old friend from Illinois who is the Senate liaison to the White House, suggesting Clayton Yeutter. I do not think my suggestions had anything at all to do with his appointment, but I want to say it is probably the most positive sign for American agriculture that I have seen so far this year. I think he knows his business and I think that in the world marketplace, Clayton Yeutter will very aggressively and affirmatively represent the interests of American agriculture, and I am personally absolutely delighted with his appointment.

Beyond that, may I say to the chairman that I would like to submit a short statement for the record,[1] and then the final thing I would like to do, if I may, Mr. Pennell, is to ask you a question.

You have touched upon very briefly something that several people have discussed with me recently, this question of the proposition to permit a loan rate for the farmer to obtain the money at the basis of the market price at the time of the harvest.

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[1] See p. 612 for the prepared statement of Senator Dixon.

Is that correct essentially?

Mr. PENNELL. Yes.

Senator DIXON. What do you term that again?

Mr. PENNELL. It has got a couple names. Marketing advance or marketing loans are what it is ordinarily called. It is a nonrecourse loan.

Senator DIXON. In other words, right now is the rate for corn $2.55? Am I right on that?

If the rate at harvest was $2.30, as I understand it, the farmer would receive the loan rate. Is that right?

Mr. PENNELL. He would.

Senator DIXON. Has there been any kind of an arithmetical evaluation of this as to what the cost would probably be?

Mr. PENNELL. Thank you, Senator. I am glad you brought that up. I should have said something.

Evidently there is one in the mill, and I have not seen it. I think it was done at the University of Missouri.

Senator DIXON. The obvious thing here is to avoid all the storage and these tremendous surpluses and things of that character.

Is there a feeling, incidentally, among those who have the expertise, that there would be a savings in this kind of program?

Mr. PENNELL. Definitely.

Senator DIXON. In actual dollar savings aside from the fact that most of us would like to avoid storing all these commodities?

Mr. PENNELL. The savings are largely composed of savings in carrying charges, storage, interest, handling, et cetera.

Senator DIXON. Somebody told me recently, Mr. Chairman, and I do not recall who, that there is something like a 35-cent a bushel cost on corn or something like that.

Is that about right?

Mr. PENNELL. It could be conceivably.

Senator DIXON. When do you think somebody will have something on that?

Mr. PENNELL. I think that I can get that for the record.

Senator DIXON. I might say to the chairman——

Mr PENNELL. Within 1 week.

Senator DIXON. Several people I respect highly, the Chair and others in this room, know how fond I was of Scott Schearer who was my liaison on the committee and a very good young man, a graduate of the University of Illinois School of Agriculture, hands-on farmer, had been a farm extension adviser and other things, an exceptionally bright young man who has gone over to the National Corn Growers as their No. 2 man. He liked this idea, and anything he likes. I am persuaded, has some value, and I would like to see more information on this program, may I say.

Mr. PENNELL. I will be delighted to submit that for the record.

[The following information was subsequently received by the committee:]

National Council of Farmer Cooperatives,
Washington, DC, April 29, 1985.

Hon. Jesse Helms,
Chairman, Senate Agriculture Committee, Washington, DC.

Dear Senator Helms: Enclosed are the preliminary cost projections for the marketing loan that were requested during testimony given on the National Council's behalf by Rich Pennell, Senior Vice President of Harvest States Cooperatives, on April 4. Also listed are estimates of the cost of current programs continued and the farm income which would result from the marketing loan and the Administration's farm bill.

Please feel free to contact me or my staff if you require any additional information regarding the marketing loan proposal.

We appreciate the opportunity to testify and to further clarify our ideas on the marketing loan. We look forward to working with you toward a more profitable future for America's farmers.

Sincerely,

Wayne A. Boutwell.

CURRENT SERVICES COST [1]

[Dollars in billions]

	Fiscal year—				4-year total	Average
	1987	1988	1989	1990		
Wheat	$4.1	$4.3	$4.7	$4.7	$17.8	$4.45
Feed Grains	3.4	4.2	3.4	3.1	14.1	3.625
Cotton	1.2	1.1	1.0	.7	4.0	1.0
Rice	.9	1.0	1.1	1.3	4.3	1.075
Total: Grains and cotton; net CCC outlays	9.6	10.6	10.2	9.8	40.2	10.05

[1] USDA and FAPRI cost projections were developed separately and should only be used for rough comparison.

Source: USDA.

MARKETING LOAN COST [1]

[Dollars in billions]

	Crop year—				4-year total	Average
	1986–87	1987–88	1988–89	1989–90		
Total nonrecoverable net costs for grains and cotton	$9.16	$8.58	$7.71	$6.17	$31.62	$7.9

[1] USDA and FAPRI cost projections were developed separately and should only be used for rough comparison.

Source: Food and Agricultural Policy Research Institute, University of Missoui-Columbia, Iowa State University.

PROJECTED NET FARM INCOME

[Dollars in billions]

	Fiscal year—						Average
	1986	1987	1988	1989	1990	1986–1990	
Marketing loan	$26.04	$21.17	$20.74	$24.53	$22.73	$115.21	$23.042
Administration farm bill	21.13	16.5	13.5	15.78	16.25	83.16	16.632

Source: FAPRI.

Senator Dixon. Mr. Chairman, in your absence, I want you to know I even enthusiastically endorsed Clayton Yeutter along with your endorsement. I think he is a superman and appreciate your kind remarks, and I thank the witness.

The Chairman. Thank you.

Senator McConnell.

Senator McCONNELL. No questions.

The CHAIRMAN. Thank you very much.

Mr. PENNELL. Thank you, sir.

Senator DIXON. I have a problem with the markup in the Armed Services Committee on pretty major stuff. How long do you think it will be?

The CHAIRMAN. I just left the room to tell the staff to see what they could do about building a fire and getting the Senators here long enough to take a vote. If you could remain, Pete Wilson has the same problem as you do.

Senator DIXON. Yes; we canceled each other out on the rollcall.

The CHAIRMAN. We will cancel him out——

Senator DIXON. I was just kidding. We both left proxies up there.

Senator MELCHER. Mr. Chairman, are we on the question of the appointment?

The CHAIRMAN. We are not now but we shall be as soon as the Chair recesses the committee from the hearing and convenes the committee to consider the nomination of John R. Norton III.

[Whereupon, the committee recessed, to reconvene after nomination hearing.]

The CHAIRMAN. The committee will resume its hearings.

We have J. Stephen Gabbert. We had a little business to transact, and you may proceed.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION, ARLINGTON, VA

Mr. GABBERT. Thank you very much, Mr. Chairman.

In view of the brevity and to keep the proceedings moving along, I would request that my statement be submitted for the record.[1]

The CHAIRMAN. Without objection, it will be.

Mr. GABBERT. I will make some comments briefly, focusing on specific recommendations regarding the export issue.

We heard a lot of testimony and will continue to hear a lot talking about the problem, describing the problem of hunger, which we have been describing, and philosophizing over the problem, based upon certain events which we think will be taking place over the next 18 months and how they will be adversely impacting on agriculture.

But basically we would favor an aggressive export policy be established in the national interest that would provide the following components:

No. 1, mandate an export payment in kind program when Commodity Credit Corporation stocks reach designated levels and we say mandate specifically because, as you know, Mr. Chairman, there already exists the authority within the CCC charter for this type of program to be implemented. The tool is there. It is just not being used, and we believe that providing the discretion or emphasizing the authority will not be enough.

We think the timing of such a mandate is very important. As I mentioned in the beginning of my testimony, given the sequence of events that are taking place—among them, the dramatic loss of exports—as has been testified to earlier this morning, we really cannot wait for the implementation of a farm bill in the latter part of 1986. I think it is an important item that should be acted on quickly.

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[1] See p. 635 for the prepared statement of Mr. Gabbert.

We also believe that there has been reference to what people call a bonus program, and I would simply like to characterize it as export-in-kind program rather than a bonus program. A bonus is something you give to people who have earned it, to countries that have been buying and would earn an additional amount. I think we are getting to the point where we are not going to be selling at all, and so it is not going to be a question of anyone earning an additional bonus. It is going to be a question of whether we can even keep that market.

Second, we feel that we should establish mandatory retaliatory mechanisms that would be implemented against countries which unfairly deny access to U.S. agricultural products, and—I think this can be very helpful—some kind of transparent mechanism that our trade negotiators would have when they sit down to deal with other countries' negotiators, a deadline, so to speak, so the other negotiators know we are under the gun to produce results and that something is going to happen if they do not.

I think that for these open-ended scenarios we have been having where we have talks that go on and on and on, there needs to be a better definition of the process.

Third, Mr. Chairman, we would recommend implementation of a Food for Progress Program that would utilize CCC inventories on a multiyear basis to leverage establishment of long-term economic development problems in most seriously affected countries, and we would strongly support the legislation as incorporated in your version of the farm bill, Mr. Chairman. We think that is a program that would be extremely useful and very helpful.

We would also like to recommend that we amend and fund the GSM-301 program, which is a 3- to 10-year export credit guarantee program.

Another component of our recommendations, Mr. Chairman, would be to make it a policy to tie trade and aid together so we use a number of these programs that we have already on the books to leverage the purchase of U.S. agricultural commodities. I would envision using mixes of Public Law 480, food for progress, economic support funds, the Commodity Import Program, and all the various GSM-5, 102 and 301 programs. I do not know, Mr. Chairman, if you happen to have seen the latest issue of U.S. News & World Report, but on the cover there is a salesman holding a bag, and we see the description of him as "the Yankee Trader" and a question mark, the "Death of the U.S. Salesman." I think that if we can make a policy of tying trade and aid together, I could see the U.S.A. Under Secretary for International Affairs going into a country and their saying they need this amount of economic support funds or food for progress, this amount of Public Law 480 and build up maybe some 301 credit on top of it. And if it appears they still have a gap left, we would provide that to them on a commercial basis, but with the understanding they are not going to get any of the initial concessional assistance until they have made a commitment to buy everything from the United States. I think that is good trading and makes good sense.

I think while we are emphasizing the commercial aspect, we are not forgetting about the humanitarian and economic development parts which I think would be embodied in the concessional programs that we are recommending. Also, Mr. Chairman, we feel that the high value of the dollar is going to remain with us for a long time, at least for the foreseeable future, and we view that as an export tax. We would like to see a study done that would explore the establishment of an export restitution or a money compensatory program, and we already have models for that purpose.

Finally, Mr. Chairman, I think we should expand and reform the Public Law 480 program, and I think we have had many reviews of Public Law 480. It has been around for a long time, and we know what works and what does not work; and I think before we throw a lot of money at it, we ought to make sure we are using it properly at the present time.

I think Senator Melcher was in the Philippines recently, and I think there is a misuse of that program right now where they are holding it hostage to try to encourage the Philippine Government to implement various economic reforms sought by the International Monetary Fund.

Specifically on Public Law 480 we would recommend that legislation be passed that would require 75 percent of Public Law 480 agreements to be finalized and signed by the first quarter of each fiscal year, so that at least 75 percent would be signed by December 31. I think this would be a lot of help in the process which is getting bogged down, where you are seeing agreements that are not being signed until later on in the fiscal year, primarily due to a lot of bureaucratic infighting and interagency bungling.

Another recommendation on Public Law 480 is that legislation be passed that would allow a recipient country to repay its CCC obligations in its local currency that would not exceed in each fiscal year the total amount of local currency needed by the U.S. Treasury to fund U.S. Government operations in that country. I think that makes good business sense.

Third, Mr. Chairman, on Public Law 480, we would like to see a recipient country be allowed to sell its commodities from Public Law 480 in the domestic market at world market levels and require that those funds generated from these sales be deposited to the country's development account. The impact is that right now you have the IMF going into these countries and requiring they not subsidize their products; therefore, we are finding cases where they cannot apply the concessional benefits of Public Law 480 to the domestic sale. They have to sell at a price they bought it from the United States irrespective of the concessional benefits, so countries are now beginning to forgo Public Law 480 purchases and find it easier to buy from some other source even though they have to lay out the cash.

Fourth, under Public Law 480 we recommend that we just terminate title III. I think it is a dead horse. It has not gone anywhere. It imposes unnecessary administrative burdens on developing countries and I think it can be argued that title III programs essentially pose a disincentive to private enterprise.

Just very briefly, Mr. Chairman, with respect to the Food for Progress, we strongly recommend that this program be implemented. We think it provides a flexible, totally different concept, and we see it as additional and outside of Public Law 480; and we feel that this would be very useful and helpful to have it coordinated from within the White House. We view that Food for Progress cannot simply serve as a replacement for title III which, as I mentioned earlier, has very rigid bureaucratic controls and really do not lend themselves to multiyear policy leveraging food aid commitments needed to spur the implementation of growth-oriented agricultural policies in recipient countries.

Thank you, Mr. Chairman. We appreciate this opportunity to testify, and I would be very happy to answer any questions.

The **CHAIRMAN**. I have only one question.

I gather that you think there ought to be separate legislation, rather than just amending Public Law 480, title III, in order to accomplish the implementation of the Food for Progress. Is that correct?

Mr. **GABBERT**. Yes, sir. I think the administration has taken a position, after a long and hard review of Public Law 480—and as all these things do develop into a turf battle, which is what happened down in the administration—they have come essentially to take Ambassador Keating's proposals and incorporate them under existing Public Law 480 provisions, especially title III.

The **CHAIRMAN**. Do you have any notion about the difference in the cost of doing one versus the other?

Mr. **GABBERT**. Not really, sir.

The **CHAIRMAN**. I will have staff work on that.

Very well, Senator Melcher.

Senator **MELCHER**. The question of allowing the recipient country to sell commodities on its domestic market at world market price, would that not be just whatever the market price happened to be in a domestic country, rather than having to determine what world market price is?

Mr. **GABBERT**. That could be it. It could also be the price they would be able to purchase these commodities for from other sources, if they did not get it under Public Law 480.

Senator **MELCHER**. Whatever the price, if you cannot sell it for higher than the price in the market, you would not suggest they sell it lower than the price in the domestic market.

Mr. **GABBERT**. You are correct.

Senator **MELCHER**. On page 7, your third point refers just to that sold by the country. What about the private voluntary organizations?

Mr. **GABBERT**. I am referring to title I.

Senator **MELCHER**. Only to title I?

Mr. **GABBERT**. Yes.

Senator **MELCHER**. Are you getting into title II at all?

Mr. **GABBERT**. No. I am primarily dealing with title I.

Senator **MELCHER**. Thank you.

The **CHAIRMAN**. Thank you very much, sir.

Mr. **GABBERT**. You are welcome, Mr. Chairman.

The **CHAIRMAN**. The Chair would observe that it is not an easy process for all of these witnesses to come up here and sit down.

They have to do the preparation, and we are mindful of that, and we are grateful for the time spent by all of the witnesses this morning.

The next witness is Morgan Williams, president and chief executive officer of the Cooperative League of the United States of America, Washington, DC.

We welcome you, sir.

Mr. **Williams**. Thank you, Mr. Chairman.

The **Chairman**. You have been around this town for a while, and you know what it means to have a committee of two sitting. The observation was made about finally getting 10 members for a quorum here a while ago. Actully, we did not need but nine, and Senator Zorinsky was sort of letting me have the notion that six-tenths of the votes for Mr. Norton came from his side, which is splendid.

The only problem is that Senator Lugar had to come over from where he is chairing a committee. Most members of the minority are chairing a committee and find it difficult to attend committee sessions regularly, so that is the difference between being a majority and minority, I suppose.

You may proceed, sir.

I think Senator Boschwitz stated he hoped all witnesses would assume, correctly, that their statements will be printed in full in the record, and you may proceed as you wish.[1]

STATEMENT OF MORGAN WILLIAMS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, COOPERATIVE LEAGUE OF THE UNITED STATES OF AMERICA

Mr. **Williams**. Thank you, Mr. Chairman.

It is certainly a pleasure to be here, and it is always an honor, and as a former staffer, to have two Senators at a hearing is tremendous. I have been at a lot of hearings where there was only one, but it is still a very important process, and with the Chair and a good friend like Senator Melcher, of agriculture and agricultural exports, it is a pleasure to be here, and I am very pleased that Mr. Norton was recommended by the committee. I hope you will be able to get that through the Senate quickly so he can be up and running, and contribute to this very important year for agricultural legislation.

I do want to say that we also support very strongly the testimony from the National Council of Farmer Cooperatives by Rich Pennell. We think those comments were very appropriate and we support those.

Also, I might say that we support the testimony coming next from Charlie Sykes, executive director of CARE. CARE was started in 1945. Three cooperative groups helped organize CARE: the National Credit Union Association, the Grange and my own organization and, in fact, the C in CARE stands for cooperative, and it began originally as Cooperative for American Relief to Europe, and now is the Cooperative for American Relief Everywhere, and it is a very fine organization, and we certainly support their work.

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[1] See p. 638 for the prepared statement of Mr. Williams.

With me today is my colleague, Peggy Sheehan. She is vice president of food policy and market development at the Cooperative League. She has only been on board a couple of months. Previous to that she spent 18 years with the Agency for International Development, in their Public Law 480 program, and was very key to many of the successes of that program, and we are very pleased, I guess, to take her away from the Federal Government, and bring her to the private sector to help us work on improving that program, and also my organization does international development work under that program.

I just want to say to the Agriculture Committee that this year presents a tremendous opportunity to do some things for farmers and for agriculture. You have a real window of opportunity with the African situation. Public Law 480 being reauthorized under the farm bill, it is just a great opportunity to do some new things, and I think this opportunity will be a win-win situation.

This would be a winner for the farmers, a winner for the taxpayers, a winner for those who are concerned about those who are hungry, for those who are concerned about peace and security in the world, for those who are concerned about economic development and building markets.

Expanding and improving Public Law 480, section 416, Food for Peace, I think if we can work together, can be a winner for everyone, and probably one of the most important provisions of the farm bill, and which may do more at the margin to help farmers in the next 10 years than anything else we can put in the farm bill.

I think this is a great opportunity for Congress to make a very clear statement this year, and I think it is important to make a clear statement because, first, I think we need to reaffirm the Public Law 480 concept and the theory and what it stands for.

Second, I think it needs to be expanded. I think there are many new creative ways to use Food for Peace, security, for development and to keep the agricultural machine going in the United States, this very important resource that we have.

Also, Congress needs to resolve some agency conflicts. In the section 416 legislation, as Senator Melcher knows, we have AID saying one thing, and we have USDA saying something else. We have attorneys fighting with each other as to what Congress really said in that legislation. So I think it is a chance to clarify some legislation.

I think it is also a chance for Congress to go on record very strongly saying we want to use food to feed people, and we also want to use food to develop countries, and we want to use food for progress, to help countries change policies, so it can be more self-sufficient in their own agriculture, and I think Congress needs to make a very clear statement, because there are some powerful forces in OMB, Treasury, USDA particularly who are trying to kill some of the present Public Law 480 programs, trying to kill section 416, and certainly are against all increases in these authorities and new legislation.

I think the fact that there is no top USDA official here today, either indicates that they do not take this testimony or this area of the farm bill very seriously, or that they feel that they have already got enough votes to defeat all these new things that we think could be very important to farmers. I am not sure what their reason is, but they are certainly not here today.

The things that we would like to say are that, No. 1—we call them the three M's. We think that monetization of food is a very important concept. The food that we have, we can use the dollars from our Treasury that are allocated by Congress to buy food. That food can be shipped to foreign countries, and in those countries they can market that food and monetize it, so that local currencies are gained. Those local currencies can be used to buy trucks, to build bridges, and distribute food, but it can also be used to develop organizations, private enterprise organizations to help the economy of those countries, such as farmer-owned cooperatives.

Under title II of Public Law 480 we have $120 million in export of vegetable oil being shipped from this country to a vegetable oil cooperative in India. They are moving that in a short supply market, 100 percent monetization, taking those funds and building a very important production processing and marketing system there owned by the farmers of India. That program has been very successful. We want to see it expanded.

The USDA, particularly, is saying we do not think we will approve any more programs like that, so we think the Congress should go on record as saying that monetization is a concept we support, and we endorse it.

As Senator Melcher knows, section 416 allows monetization, but under USDA rules they are not approving any, or if they do, it is only 10 percent or less, so they have effectively killed a very important program which Congress passed last year.

Also, we feel like that because of the minimum tonnage under these programs title II should be expanded so that there will be more food for relief, more food to help develop these countries.

We also think multiple-year agreements are very important. You cannot go into these countries and change the situation there overnight. You cannot take American resources, and American private and voluntary organizations like ourselves, and others, and actually do significant work with the very short-term type of contracts and agreements that we have.

So the concept of monetization, the concept of the minimum tonnage, and the concept of being able to have multiple-year agreements we think are very important.

Now, you are going to come across so many objections to some of these from some of those people who believe that the world is static, who believe that the markets will not expand, or who do not believe that we can actually produce enough food for everyone, but my experience has shown that these countries are going to have to get up to a certain level of economic development and a certain area of food production before they are going to be able to buy food from us.

And I think, for one, that the American agricultural community realizes that we are going to have to help these countries develop if they are going to be long-run markets. You cannot keep sending them food on a subsidized basis, or food with no interest, or whatever, if they do not have the capacity to repay those loans.

So there are going to be those from the Department who will say these will displace an American market, or a local market, or a market of a friend, that this is a back way doorway to fund AID, or maybe it will put pressure on the budget, or maybe it will make institutional surpluses, and maybe Jamie Whitten will not like it. They have got seven or eight arguments they try to use to hook people in to defeat present programs, as well as to stop the expansion.

But this area is a very important one. Some amazing things can be done with this renewable resource in the future. We have only begun in many ways to use these creative resources and we think if you will be able to expand the use of these resources, particularly in the economic development area, to develop private enterprise sections of these countries, this can be done with adequate safeguards to our farmers, with adequate safeguards to our Treasury, so in my testimony you will find the details of these programs we recommend, and others are recommending here today, and I just encourage the Senate Agriculture Committee, who I have always known to be a very progressive, innovative committee, to do the innovative thing, and to make a very clear statement of the very tremendous way you want food used in the next 10 years, and I think that we will all come out winners.

Thank you.

The CHAIRMAN. I thank you for your statement, and I understand your observations about the USDA not being here. However, I would like to point out that, as you know, having been a member of this committee's staff, this is a public hearing not an invitational, and as a matter of fact, the USDA is on the House side right now testifying on this subject.

So, like Senators, they cannot be in two places at one time, but we appreciate your coming.

Senator Melcher.

Senator MELCHER. Morgan, in the application of either title II or section 416, is there any difficulty if the request is from dual organizations, for instance, from the Cooperative League and from others, like CARE, CRS, what have you?

In other words, the monetization factor might be greater if the Cooperative League were involved for development, and CARE or CRS was involved for distribution of the food.

Mr. WILLIAMS. Yes; I might say CARE and Catholic Relief Service have a dual program. They are in the relief business, but they are also in the development business. Most of their applications for monetization under section 416 have been to monetize, say, 10 to 20 to 25 percent of the food in order to provide more resources, in order to effectively distribute the rest of the food. That is the normal application that they have.

Our application, yes, is more a 100-percent monetization, and we are now doing that under title II, though the Department of Agriculture and others are trying to kill that. We would like to have 100 percent monetization under section 416, to use all of those resources, to develop private enterprises in the Third World, so those countries might be able to improve their economies, have better incomes, and buy more from us in the future.

The AID attorney said that 100 percent monetization under section 416 is now legal. The USDA attorney says it is illegal, which reflects not only his legal opinion, but also the policy of the Department of Agriculture. And the Department of Agriculture says we will not even consider any monetization of 100 percent for development until the law is changed, and Congress clarifies their intent, and also they kind of have an unwritten rule that they are not going to monetize more than 10 percent under the relief program which, I think, is a mistake, and also they put a lot of hassle and roadblocks to where it takes so much paperwork to even get them to approve 10 percent, that most of these agencies have gone to find other ways to get the job done, rather than fool around with that very cumbersome process through which agencies write the law, instead of implementing the law.

Senator MELCHER. I think quite often the private voluntary organization is even not just hesitant to develop an application, they know there is not any use. So they simply do not develop an application, except those that the AID people say from the start they will move from the first stage.

But, nevertheless, the development work that the Cooperative League sponsors is a very time-tested success story, but it does involve quite a few years of presence in order to get it underway, does it not?

Mr. WILLIAMS. Senator Melcher, you know how difficult it is to start a new business in this country? It is fourfold, or fivefold more difficult in a developing country. There is a lot of training that takes place. It is a long-term process. The dairy cooperatives and soybean and vegetable cooperatives we are working with in India, that system was started in the early fifties, and is still building and growing, and it is a very dynamic system.

We now have 2½ million farmers selling milk, twice a day, to this cooperative, and that has given them the strength to move into vegetable oil. India has an almost insatiable capacity to absorb vegetable, and because of our program, and because their own feelings, are more secure now, because they are producing more of their own, they are going on the markets to buy more. So I think that we can help develop markets, as well as help develop those countries at the same time.

Some of our commodity groups have been very myopic in fighting every research program, fighting every program to help the Third World develop some of their own food resources, and I think that is a very shortsighted view in the long run.

As I mentioned to you the other day, when you visit the Minister of Agriculture in Egypt, on his door it says Minister of Agriculture and Food Security. They are very concerned about food security.

We need to help those countries get up to a level of production where they feel secure, and their economics become successful, and they are going to be a tremendous long-run market for us.

I hope that we can get out of this myopic position that many groups have been in, and that we go after not only the short-run approach, but a long-run approach, and I think if Congress will make it very clear this year, in strong language—and we can put all these in one bill. We can put Food for Progress, section 416 Food for Peace, put it all in one package, of how we are going to use food in this country to build a better world, and help achieve our objectives, as well as theirs, and there is just so much that can be done in such an exciting area, but we are not going to get it done unless Congress and this committee will make a very bold and clear statement.

Senator MELCHER. Thank you, Morgan.

Thank you, Peggy.

The CHAIRMAN. Thank you very much.

I suggest that the next four witnesses sit as sort of a panel, beginning with Mr. Charlie Sykes, assistant executive director of CARE in Washington, and the distinguished Bishop Robert L. Pruitt of the African Methodist Episcopal Church, accompanied by Taft Holland of LEND, Inc., in Washington; Mr. Robert Snow of Oxfam America, in Boston; and Mr. Robert Ainsworth, director of World Vision Relief Organization, California.

Gentlemen, let me say again what I said so many times. I know is a sacrifice of your time, and a dedication of your time, and I want you to know I as a Senator appreciate the fact that you have gone to the effort to prepare, not only to come here, but to prepared for it in advance. We are moving along in time, but I am delighted you are here. Am grateful that you are here, and you may proceed.

Mr. SYKES. Thank you, Mr. Chairman.

We have submitted a written statement to the committee.[1]

The CHAIRMAN. All statements will be printed in their entirety. You may wish to summarize them for your oral presentation, and Senator Melcher and I may have some questions.

STATEMENT OF CHARLES L. SYKES, ASSISTANT EXECUTIVE DIRECTOR OF CARE, WASHINGTON LIAISON OFFICE

Mr. SYKES. Thank you, Mr. Chairman.

I appreciate the opportunity to appear for CARE before the committee.

I would like to first commend you and the committee for your rapid reaching of a compromise with the House on the Africa relief and famine bill that was so important. We think this sends a clear message of American concern in that very tragic situation.

We would like to strongly associate with the Cooperative League and Morgan Williams' statement concerning the three M's, particularly the question of additional minimum tonnage being considered for the next period of reauthorization of Public Law 480. We think this is essential, primarily because all projections from the USDA, FAO, IFPRI [the International Food Policy Research Institute] clearly show the cereals gap is going to increase in the next 5 years.

You will remember that in 1974 the World Food Council projected the requirement for the poorest countries was about 10 million metric tons. The projections now are, at a minimum, about 16 million metric tons. For that reason we feel that it is essential, given the leadership role of the United States in this field of food aid, both in terms of its ability to affect the level of donations and contributions from other countries, as well as to bring in other donors, that you give consideration to increasing the minimum tonnage level in your deliberations.

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[1] See p. 641 for the prepared statement of Mr. Sykes.

Second, or the second M, multiyear planning, we believe is essential now, and we hope the committee will look at this in its deliberations. The private voluntary agencies and cooperatives which are involved in representing the title II interests in Public Law 480 should be given the opportunity to negotiate on a multiyear commodity commitment basis.

Clearly the government-to-government programs, and the world food program have this provision. It will enable us, for example, to make longer term commitments of our own resources, and also to extract commitments of resources from our counterparts in the health, education, rural works, and cooperative projects which are essential in building a constant relationship, and in making food aid resources more effective for longrun development activities.

Finally, I would like to support the point made by Morgan Williams on monetization, the need for private voluntary organizations to have some latitude in the sale or barter provisions. He mentioned a very fine CLUSA project with the National Dairy Development Board in India. There are two other types of examples where monetization would prove useful, and they have been used by the Adventists and the Catholics, in Ghana, where food was used to move emergency relief food aid, where the currency has relatively little value. They have used food, let us say, 1 bag of rice to move 10 bags of rice 100 miles to where it was needed.

We think these are legitimate and effective uses of food aid, and that PVO's should have explicit discretionary authority in using food in this manner. We hope the committee will include such authority in any new legislation.

The other example, Mr. Chairman, is the example of our using food in Bangladesh, monetizing 100 percent of Canadian wheat to establish a wage fund for 31,000 rural women who receive a salary every 2 weeks of about $7. Their job is to compact, fill in the potholes on the roads, which are essential to keep open for commerce and for all the activities in those areas.

We think this sort of flexibility should be built into the deliberations and concerns of the committee.

Local currency under title I in your bill deserves consideration for a number of reasons. Obviously, the poorest countries, with serious debt problems, are in need of special concessional arrangements, and will not be able to express demand for essential food commodities, unless such a provision is made. We hope some of the proceeds will be earmarked for development purposes in those countries.

We are very grateful, Mr Chairman. We salute your efforts.

Thank you, Mr. Chairman.

The CHAIRMAN. Very fine statement.

Bishop, it is good to see you. How have you been at your church?

Bishop PRUITT. Extraordinary. How are you?

The CHAIRMAN. Could be better. Easter is coming up. The Congress will not be in session. The liberties of the people will be safe.

Bishop PRUITT. The liberties, I trust, are safe, sir.

The CHAIRMAN. You may proceed.

Bishop PRUITT. Mr. Chairman and Senator Melcher, first of all, before I even introduce myself, I ask your indulgence, if I might read my statement. It will be about 6 to 7 minutes. Being a clergy-man, if I do not read it, I might begin at Genesis and end at Revelations.

The CHAIRMAN. Just like a Senator. [Laughter.]

As you wish.

STATEMENT OF BISHOP ROBERT L. PRUITT, CHAIRMAN OF LEADERS ENERGIZING NEIGHBORHOOD DEVELOPMENT, PRESIDING PRELATE OF THE 17TH EPISCOPAL DISTRICT OF THE AFRICAN METHODIST CHURCH, ACCOMPANIED BY TAFT HOLLAND, PRESIDENT, LEND, INC.

Bishop PRUITT. My name is Robert L. Pruitt, bishop of the 17th Episcopal District of the African Methodist Episcopal Church. My areas of responsibility are in Zambia, Zimbabwe, Zaire, Tanzania, Angola, and Malawi. I am former pastor of the Metropolitan African Methodist Episcopal Church, Washington, DC.

At our last general conference of the African Methodist Episcopal Church, I am proud to say I was elected the 103d bishop of the African Methodist Episcopal Church. My church's history is extremely rich. I am humbled and proud to say that in the year of 1987, the African Methodist Episcopal Church will celebrate its bicentennial.

Accompanying me today is Taft Holland, who has been tutored and trained by myself and my colleagues, and is now the president of LEND, Inc. [Lenders Energizing Neighborhood Development] and I am happy to have him here. So when it comes to the questions on titles I, II, III, and those kinds of technicalities, you will have to deal with him, rather than with me.

Rigid, state-controlled economies are common throughout much of Africa. In fact, in developing areas worldwide, there has been a regrettable tendency to evolve state control of economies. Hunger in much of Africa is but one of the more costly results of this.

Throughout the underdeveloped, so-called, Third World, the four horsemen of the apocalypse are on the ride, with hunger only the more evidenced among them. Systems of state control have taken root as colonialism and old oligarchies waned. The development of free economies has come all too slowly.

To some degree, the new systems of state control—witness Ethiopia—are a reaction to the policies of the past. To an even greater degree, however, these policies have been prompted by a misdirected belief that resource and production scarcity is the lot of man, and that this scarcity can be best managed through a system of centralized economic control. Systems that stifle enterprise inevitably lead to scarcity and become justifications of increased control of enterprise and people. One reads with alarm, for example, that in Ethiopia, and perhaps elsewhere, the government has begun to distribute precious seed grain, earmarked and stored for use by farmers for this year's crops, to urban dwellers as food to be eaten—all because governments fear the displeasure of urban populations and their potential to be the critical mass which can unseat leaders.

Africa has a long tradition of individual or tribal control of land and of farm animals. This deep-seated tradition and practice has come up against new systems of state control of food distribution and sale—with state efforts to control everything from access to seed, to transport, to prices, and marketing. These systems of control have robbed the private sector of vitality as efficiently and devastatingly as has the drought.

It is time to resupply free enterprise—not as a colonialist system, however, but as a system sensitive to and responsive to African culture, so as to draw upon and reward the best talents among its enormously talented peoples.

Free enterprise is not an economic system open to branch plants, or branch banks of the U.S. Fortune 500. Free enterprise is a pervasive opportunity system. It is a system whose benefits become widely shared, as far as I am concerned. Free enterprise is based on:

Widely diffused property ownership, whether of land or of systems for distribution and sale.

A free and open market. Open market access by producers—with the result that going into business is widespread; open market access by customers, who can shop for their best deal.

Prices determined by the market, not through efforts at state price control.

Fair, open, and free competition.

A stable currency, with a sound, predictable value.

Government encouragement of free enterprise, as the dominant form of production, distribution, and consumption. Not just a tolerance of a little bit of enterprise to make up for the inefficiency of state enterprise, as illustrated by Russia's policy of permitting farmers to have small, private gardens—gardens which occupy about 2 percent of tilled land, but account for about 30 percent of most vegetable production in the Nation.

Encouragement of private enterprise by a developing nation must mean putting aside any mistaken impression that free enterprise is a form of economic colonialism, and, instead, looking at it as the best way to release the talents and energies of talented and hard-working people. Free enterprise is a system of, by, and for the people.

These are the key facets of private, free enterprise essential to make it work—and which must be present in public policy in a developing nation if enterprise is to be a successful process.

Mr. Chairman, I know Africa. I know the deep roots there of private ownership. I applaud, therefore, any American policy to foster it. For through it, we will do far more than benevolence ever can accomplish to save a continent's people.

The legislation, as proposed, frequently refers to the desirability in Africa of agricultural policies based on "free, private enterprise." I applaud this. I also feel that this term needs expansion and definition so that any program administrator knows how to measure progress in that direction.

I also feel that more emphasis should be placed on agricultural education, and to the true plight of the Africans on the entire continent.

Senator Melcher, I would now like to commend your chairman for this concept and legislation that he is advocating which are visionary.

For many, many years, Africa has been called the dark continent. Gentlemen, I must say that due to Senator Helms' interest in many areas of Africa, we in Africa now see a ray of light, and I want to thank him for his efforts, and his continuing efforts.

Not only do I thank you, but all of the African Methodist Episcopalians, 2 million of us around the world, applaud and thank him for his efforts.

Senator BOSCHWITZ [presiding]. Mr. Chairman, do you have any questions of this witness?

The CHAIRMAN. I do not have any questions. This is a dear friend, and he overspoke himself in the last paragraph, but I thank him for it.

Senator BOSCHWITZ. Do you have any questions of the bishop?

Senator MELCHER. I think we agreed to hear all of the witnesses first.

Senator BOSCHWITZ. If you have any questions, it will give me a chance to read the bishop's statement.

You have no questions of the bishop at this time?

Senator MELCHER. Not at this time. I appreciate his statement.

Senator BOSCHWITZ. Mr. Snow.

STATEMENT OF ROBERT SNOW, RESEARCH AND PLANNING OFFICER, OXFAM AMERICA, BOSTON, MA

Mr. SNOW. I am Robert Snow, research and planning officer for Oxfam America, an international development and disaster relief organization based in Boston.[1] We fund local, grass roots groups in poor countries in Asia, Africa, and Latin America.

Oxfam America neither seeks nor accepts Government funds, nor food offered under the provisions of Public Law 480. We therefore view Public Law 480 from the outside—from our observations of its impact on the poor—rather than from the inside, as a participant in the program.

We have views on several aspects of the renewal of Public Law 480, which we would like to present today. The views derive from our experience that food aid is best confined to emergency food aid, and otherwise financial assistance is usually more effective. Therefore, we do not support the reauthorization of title I of the bill, the Food for Peace Sales Program, specifically because our experience has shown that ordinary peasants neither benefit from it, nor have much voice in how it is used.

Second, we recommend the strengthening of the provision of U.S. Emergency Food Aid, currently administered under Public Law 480, title II, to be more responsive to the food needs of developing countries.

Since title II emergency assistance is often hampered by political considerations and motivations, rather than humanitarian concern, we believe this assistance should be separated from the current Public Law 480 program. To this end we strongly recommend that the committee consider, first, reconstituting title II emergency assistance in a bill other than Public Law 480, to emphasize its nonpolitical nature.

Public Law 480 is often motivated by concerns which conflict with humanitarian response.

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[1] See p. 643 for the prepared statement of Mr. Snow.

Placing U.S. emergency food assistance in a separate bill would give credence to its stated nonpolitical goal, and strengthen control over its use and implementation.

Second, we recommend raising the title II emergency assistance level to $900 million, the approximate amount allocated in fiscal 1985. For the last 2 years Congress has had to pass supplementals to provide adequate funding for emergency assistance. This process has been held hostage to other political agendas. As a result, people in need die.

To be effective, food aid must arrive before people leave their home communities and establish themselves in relief camps. So to delay the process only magnifies the crisis.

Regarding other proposed reforms of the title II section of the bill, and this is the three M section, we feel that food aid to be effective needs to be viewed as a part of an overall food security strategy. At best it is one component of a development project, not the sole ingredient. In light of this we offer the following comments on the proposed reforms.

First, regarding monetization of food aid, we feel that this does address, at least in theory, the need to strengthen the effectiveness of food assistance by combining it with development aid. As proposed, however, monetization needs to be weighed against the negative impact of selling food on local markets.

As proposed, the 25-percent monetization language does not recognize the varying abilities of in-country markets to absorb large quantities of food assistance without depressing local prices. A way to deal with different in-country circumstances and needs would be to evaluate each country, and set up a specified amount for sale, of any given commodity.

If the specified amounts cannot be determined on a country-by-country basis, then a figure lower than the proposed 25 percent is needed, preferably around 10 percent.

Sales of over 10 percent could be authorized if the need and absorbtion capacity of the country could be documented.

Regarding one of the M's not mentioned by the other speakers, but I believe included in the bill, monetary resources to the private voluntary group, provision of direct cash to PVO's is preferable to either monetization of direct food aid.

Consideration should be given to raising the proposed level above the 10 percent level set in the bill. We believe that the United States can afford to finance title II activities, and relief, without trying to make them self-financing operations.

Regarding the minimum tonnage levels, although we are sympathetic with the problems of the American farmers at this point, we feel that minimum tonnage requirements only wind up encouraging a U.S. surplus-motivated strategy versus a Third World needs approach to providing food aid. Food aid should only be allocated on a needs assessment basis, and must not be allocated on a U.S. surplus basis, we feel.

We do endorse the need for multiyear funding of Public Law 480 grants to PVO's, to provide for a more rationalized planning of their work.

In conclusion, we feel that food aid is useful as an emergency relief technique. However, as a development tool, its use is still uncertain.

The crisis in Africa will not be solved this year. What is needed now is a strong commitment to helping African countries, their leaders and their peasantries, to implement their own plan for food self-sufficiency. Food aid alone cannot accomplish this.

Again, from our experience, the most effective use of food aid is as a short-term measure in an emergency situation. In these situations food is both necessary and appropriate, but beyond these emergency situations food aid needs to be combined with recovery assistance, in monetary form, if it is to play a role in gaining food self-sufficiency.

Thank you.

Senator BOSCHWITZ. Mr. Robert Ainsworth.

STATEMENT OF ROBERT AINSWORTH, DIRECTOR, WORLD VISION RELIEF ORGANIZATION, MONROVIA, CA

Mr. AINSWORTH. Senator, thank you. It appears I am the last of a long line of Roberts here this morning.

I am speaking on behalf of World Vision Relief Organization. I might add that I also serve as an officer of interaction which is a newly formed umbrella organization representing over a hundred of the private voluntary agencies. And although I cannot speak officially for them, I know that our concerns and remarks are shared by many of the members.

Basically in order to facilitate brevity here this morning, I think I will merely echo the remarks that have been made by Mr. Williams of Cooperative League, which essentially are the Ms as he mentioned, the monetization of title II, increasing the minimum tonnage, and multiyear programs.

World Vision began moving into the major commodities program about 4 years ago. Up until then, we were almost entirely a development-oriented organization, and our program began with the substantial distribution of section 416 foods in Poland, and that program continues today, and we believe anyone that has had any experience with it would say that it is a very effective program in meeting the needs of the most needy at the grass roots level.

I would add to the three items mentioned by Mr. Williams a fourth from World Vision's standpoint. We would like to see an expansion of the list of surplus food items that are available for overseas distribution under section 416 of the Agricultural Act of 1949. In administrating this section 416 program, only surplus dairy commodities and wheat are currently specified by the law for distribution overseas, and even under this specification the wheat has not been a commodity that has been available to us for distribution. We believe there are currently significant surpluses of wheat, rice, and corn in the United States, and these items, as well as sorghum and seed oils, hold a tremendous potential for meeting the nutritional needs of suffering and hungry individuals in developing countries. We think it would be particularly helpful if the current section 416 program were expended to include some of these items.

I will just make a concluding remark that we believe that the current Food Aid Programs and the partnership between the U.S. Government and the private voluntary organizations is making a tremendous difference today, in Africa particularly. Countless lives are being saved and large numbers of people that in times past were able to feed themselves are being set back on the road to recovery. Recent short rains in a number of African countries is very encouraging, but at least in the short term there will continue to be a need for substantial food assistance in a number of countries. But that assistance, if done correctly, need not lead to dependency.

I might add while heavily involved currently in the commodities programs, over two-thirds of the contributions coming to World Vision for the overseas program and 100 percent of our U.S. assistance program here in the United States is development in orientation and in scope. Nevertheless, we value the assistance provided us by these U.S. Government commodities programs. We appreciate our partnership with the sister agencies in the various U.S. Government offices that are involved in these programs. We are aware of the pitfalls, some of which have just been identified by my colleague. We have experienced many of the struggles that one can expect in working with a bureaucracy. We take nothing for granted. However, as we look at the scope of the problems facing the Third World today, we believe that commodity aid programs with the modifications recommended here this morning will be an invaluable tool in our battle against world hunger and poverty.

Thank you, Senator.

Senator BOSCHWITZ. Thank you very much, Mr. Ainsworth.

I note, Bishop Pruitt, that as I looked at your testimony, you talked about free enterprise and the role it has to play in the African continent, and I certainly agree with your conclusions. You did not mention Public Law 480, and I believe the countries that you——

Bishop PRUITT. With the exception of Mozambique. Strike that one. That is a typographical error.

Senator BOSCHWITZ. You are not in Mozambique?

Bishop PRUITT. I do not have Mozambique.

Senator BOSCHWITZ. We are going to help Mozambique this year in the Foreign Relations Committee over the objections of some of my colleagues.

Bishop PRUITT. I have a colleague who is there, but it is not my area of responsibility.

Senator BOSCHWITZ. We are, of course, sending foods to Mozambique due to the situation that exists there.

Do you have any comments on the Public Law 480 program and how it has impacted the countries over which you have oversight?

Bishop PRUITT. Simply the areas in which I serve, the foods that are coming in, I would personally like to see them distributed a little bit differently.

I went, for instance, November 29 for the American Red Cross on a factfinding mission for them. I think the distribution there was more equitably done than when it goes from government to government. I am not too sure about that.

Senator BOSCHWITZ. We tried to use private voluntary agencies, so-called PVO's, that are referred to here as much as possible because we agree with that conclusion.

To what degree do you feel that the difficulties that many in Africa are having are associated with the changing structure of agriculture that you spoke about? Some people maintain that, to a substantial degree, it is changing structure of agriculture from its more tribal roots that you spoke about that have caused the problems as much in some instances as the drought itself. Do you have any comment on that?

Bishop PRUITT. The change is not as rapid as I would like to see it because in Malawi, for instance, a tribal chief actually said to me, if you give me $1,000, I will release 1,000 acres of land for your church, providing you can equip it and till the soil, et cetera, farm it. When you actually live there, the change is not as apparent as you might think it is from the media. Tribal chiefs still have great control in Malawi. That is not as true in Zambia or Zimbabwe, particularly in Zimbabwe, but that government, I am not sure how stable it is at the time so I had better not comment on that. But in Zambia, as you know, all the land is controlled by the government, and I am not as sure that they are as far from tribal conditions as you might think. Those tribes are very, very strong. In Zimbabwe, it is evident, more evident among the Matebalemis and Shonahs.

Senator BOSCHWITZ. Where are you located?

Bishop PRUITT. I live in Uzaka.

Senator BOSCHWITZ. Mr. Ainsworth, I wonder if you would comment on Mr. Snow's testimony which was considerably different than yours?

Mr. AINSWORTH. Well, Mr. Chairman, I would say that perhaps the major challenge to agencies like ours today is to learn appropriate ways of using these commodities in a way that will enhance, embellish and bring about constructive development. We would agree with some of the comments and certainly some of the concerns expressed by Mr. Snow, that a dumping of large amounts of commodities on the market without adequate care and concern can lead to a destabilizing effect on the ability for the development to take place. But we have learned in many situations, and when one looks and walks through the villages and sees the kind of starvation that is occurring in many of these areas, it is really perhaps being too much of a purist to not be concerned enough to use those commodities, again, in a way that will bring about an enhanced development. We believe it is not one or the other, that it is something that can be done in parallel, constructively together, which will lead to development.

Senator BOSCHWITZ. Do you find us doing it in parallel and in coordination with one another, or are we just trying to meet the immediate needs?

Mr. AINSWORTH. I believe it varies considerably, of course, from program to program, and depending on the agencies that are involved, but I think particularly Africa has been a watershed for us in really beginning to learn how to use massive amounts of commodities constructively to bring about development. I think there is still a lot of learning that has to take place, and I think mistakes will be made and we probably can point to some things we should not have done. But, on the other hand, I think we are learning a great deal. I think people are far more development oriented. Even our donors are far more development oriented. I think there is a new sophistication that has come to the American public. I think everyone is aware of the fact that we cannot continue feeding the world forever, particularly if you look at the fact that in Africa today there are 450 million people, and in just 15 years it is estimated it will be over 900 million people. If we have problems today, what are we going to do 15 years from now?

We have got to learn how to use these programs in a way that will enhance self-reliance. That is the essential element of any commodities program.

Senator BOSCHWITZ. Mr. Snow, I certainly agree that the programs have to be used, as Mr. Ainsworth said, to develop self-reliance. But I agree it is as difficult to walk through the villages, which I have not done, or to see the pictures of starvation and not react to that. As Mr. Ainsworth said, to be a purist with respect to the problem.

How do you respond to that?

Mr. SNOW. I think maybe I did not make it clear in what I said, but we do advocate the use of food for emergencies such as Africa. We strongly advocate the increased impact of emergency aid from the U.S. Government to Africa.

What we are concerned about though is the ways in which title II aid, which is supposed to be used for development programs, can be misused and wind up having long-term impacts which undercut the goals of self-reliance. Several of the programs, the Maternal and Child Health Program, the School Feeding Program, and the Food-for-Peace Programs, I think have not been able to demonstrate a clear success story after several years of funding. But that does not mean that we are not advocating the use of emergency food right now for famine relief.

Senator BOSCHWITZ. I see.

Senator Melcher, I am sure that you are one of the strongest proponents of the use of section 416 and speak about it at virtually every opportunity, so I am sure you heard some music this morning.

Senator MELCHER. That is right. Thank you, Rudy.

I want to, first of all, thank the churches and the private voluntary organizations and the cooperatives for their dedication and persistence on food aid for development of poor countries. Public Law 480 and section 416 are for humanitarian relief and for trade enhancement, but the humanitarian relief comes first and the need to provide it has been very graphically illustrated by television coverage in Africa.

There is a second part which would not be too easily recognized by television unless explained, and the second part, which is concurrent in many countries with starvation, is malnourishment. The youngster who is an infant who is malnourished for a matter of weeks will never reach full potential. A youngster starting school who is malnourished for 6 months runs a risk of never reaching full potential. As you get a little bit older, I suppose you can stretch it out to more months. The food aid that we can provide for humanitarian relief is an insignificant cost per person to the United States.

I believe, Charles, that CARE prepared this container I am holding. In this container is 1 cent worth of wheat and about perhaps 1½ cents worth of soybean oil. The soybean oil is in the little vial. Together that means that there is 372 calories and that is about one-fourth of the necessary nutrition for a person for 1 day, and about one-fourth or one-fifth of the necessary protein for 1 day. So there, for 1 cent for the wheat and perhaps 1½ cents for the soybean oil, is a fairly good meal. It does not look particularly appetizing to us who are used to the supermarkets and all the variety of food that we daily consume, but it is the difference between life and death for the starving. It is the difference between malnourishment and adequate nourishment for the developing youngsters.

Bishop PRUITT. That is right.

Senator MELCHER. So it is extremely important. The cost is insignificant to us and it is the best thing that we can possibly do with the commodities that God has graced us with in abundance.

As to the points on development, they come along with this program. They are part and parcel of it, and that is the second part of it. It does not interfere with that portion of our goal in Public Law 480 and section 416, that refers to trade enhancement. They go hand in hand, as witnesses have so eloquently testified today.

I think the best thing we have going in this country is the work that you people do and I am very proud and thankful for it. I just want to personally express that to you all today.

Bishop PRUITT. Thank you, Senator.

Senator BOSCHWITZ. Mr. Sykes, I am sorry that I missed your testimony but did you in your testimony talk about any of the difficulties of distribution of these products in Africa?

Mr. SYKES. Mr. Chairman, in reference to distribution problems, we did relate them to the three M principles that we have put forward: monetization, multiyear planning, and raising the minimum tonnage, but I think you are looking at it from a more specific point of view.

Senator BOSCHWITZ. Yes.

Mr. SYKES. There are very special problems in terms of distribution and, accordingly, special provisions have been made in the emergency bill, as you know, to include inland transportation costs. Now the problems are multiple. They revolve around having an adequate fleet of trucks, maintaining them and having adequate spare parts, and technically trained people to keep the vehicles going. These are problems which we are working with the Government on in Mozambique. We have been working with the Somalia Government, the Refugee Commission, to help the 650,000 refugees there. It is a major problem.

We have had a number of expatriate staff from India, Filipino mechanics who have come and joined our international group to work with their Somalia counterparts. We have a Fiat spare parts specialist who simply sits there and deals with the inventory to make sure that these vehicles are maintained and are on the road and are getting out every day. So there are very special problems.

Concurrently, we see great possibilities for using some of the food aid and perhaps some of the proceeds that might be realized from its sale for actually working on the roads and improving the roads, because this is essential, this type of infrastructure, and this is what I think Senator Melcher is driving at, the concurrent use of this resource not only to meet immediate relief needs but also address some of the longer term problems of enhancing infrastructure, and there are ways to do it.

While you were out, we were just giving an example that is taking place in Bangladesh; 5,400 miles of road are being taken care of by 31,000 women who get a wage. The wage fund has been established by the sale of Canadian wheat, and it is a project we planned over a period of 2 years with Dutch funding, and we think these sort of programs have to go on in Africa, too.

So it is not only a question of immediate needs but a question of addressing the infrastructure problems, the building of warehouses, and the improving of grain storage, and the building of these roads, and improving of these roads. There are people there who are willing to work. They are ready to work.

Senator **Boschwitz**. Have you noted in your experience that we, through our contributions, have contributed to either a cheap food policy, or have in any way prevented the development of an agricultural society in some of the countries that we distribute this food to?

Mr **Sykes**. We have been working in Africa less on the question of food. CARE as of 3 years ago, we had essentially no food aid programs in Africa, only in Chad. We have been working, Mr. Chairman, principally on reforestation types of activities, and dune stabilization, and those projects which are attempting to repair the ecological damage to the environment and are even reaching to river and agricultural valleys. It is only in the last 3 or 4 years that we have, because of the emergency, moved back into food aid. We thought our resources were more valuable by trying to address some of these problems rather than using food aid, and it is only recently that we have returned to that area, sir.

Senator **Boschwitz**. Well, thank you very much, gentlemen.

Unless you have further questions, Senator Melcher, we will turn to our final panel or final witnesses.

We thank you very much for coming.

Next we have Roger Asendorf, president of the American Soybean Association, St. James, MN; John S. Barr, chairman of the board of the National Cotton Council of America, from Oak Ridge, LA; and Sheldon J. Hauck, president of the National Soybean Processors Association.

We will strictly enforce the time limitations and see if we cannot conclude.

Roger, do you have a statement? Hit it.

STATEMENT OF ROGER ASENDORF, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, ST. JAMES, MN

Mr. **Asendorf**. Thank you, Mr. Chairman.

I very much appreciate the opportunity to come before the committee today, and we appreciate the chance to talk about agricultural exports.

I would ask that my full written statement be entered into the record.[1]

Senator **Boschwitz**. Yes.

Mr. **Asendorf**. In today's world marketplace, we have to be competitive. We have to sell. But, as we all know, after the export boom of the 1970's has come the export bust of the 1980's. This has happened for a variety of reasons. Of course, demand slipped because of world recession. Debt burdens kept many Third World countries from importing our products. The 1980 grain embargo shut us out of the Soviet market, and our long-term image as a reliable supplier was damaged and, not the least of which, many nations have taken a market share from the United States with export subsidies.

There is probably no one factor more important than the high U.S. dollar. Even those prices have not been good for the American farmer or foreign customers who have been paying more per bushel because of the changes in exchange rates.

ASA supports a pro-trade agricultural policy that will allow the United States to be the preferred supplier of agricultural products. That means an agricultural export policy should be title I of the new 1985 farm bill. First, we should tailor our export sales to meet our customers' needs. To get specific, the GSM-102 credit guarantees are an important tool for international competitiveness. They help farmers make sales and they ought to be a priority item.

We also need an intermediate credit program somewhat like the GSM-102 but offering longer repayment terms. Many developing countries could use a program like this with a 3- to a 10-year repayment term as opposed to a 1 to 3 repayment that we have in place now.

There is also a need for infrastructure investment in these countries that we were just a witness to by the past testimonies. For countries at the bottom of the economic ladder, there should be an enhanced Public Law 480 program. For example, the food for progress initiative would complement Public Law 480 very well. In addition, Public Law 480 should no longer be used as a maritime subsidy, and I will touch on that a little later.

I also want to stress the importance of keeping competitive in export markets. It is one reason ASA urges Congress to extend the Soybean Loan Program in its current form. It has involved very low Federal budget outlays.

We think there is a need for bold initiatives to make U.S. agriculture more competitive abroad. I want to offer three ideas that may have some potential.

First, we are losing GSM-102 sales because countries are afraid that what looks like a pretty good deal to them today might, in fact, end up costing a lot more if the dollar continues rising while they are repaying that loan. Consequently we could protect them against any appreciation in the value of the dollar if we would index that dollar at the time of the sale to a basket of currencies. If the dollar rose against that currency basket while the country's loan was being repaid, the customer would only have to repay the original dollar value, and the United States would make up the difference.

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[1] See p. 651 for the prepared statement of Mr. Asendorf.

Senator **Boschwitz**. What happens if it goes the other way?

Mr. **Asendorf**. They would not have to make it up. In other words, they would repay it at the value they bought it at, and that would be it. If the value went down, it would stay the same.

Second, we believe the CCC stocks should be used to leverage export sales under the GSM-102 program. Suppose, for example, we made surplus commodities available to a foreign purchaser in the amount equivalent to the total interest on his loan. In effect, he would be getting interest free credit.

Third, we believe surplus stocks could be used to leverage demand increases that the Food for Progress initiative calls for. For example, U.S. farmers compete with Brazilian soybean product exports. Brazil has to export in order to gain their foreign exchange, but its people have fairly low diet levels. So the products could be better used at home if we could convince the Brazilians to start to consume some of their own products.

What if we struck an agreement with Brazil to allow just that? What if the Brazilians would agree to reduce their soybean product exports and use the products to improve their own people's diets? In turn, the U.S. would donate a quantity of wheat which the Brazilians would have bought some place anyway and, in most cases, from the United States, take that equal in value to their reduction in exports so Brazil gives up foreign currency exchange because of its soybean product sales loss, but it makes up the difference because it does not have to turn around and use that same foreign currency to purchase wheat.

Finally, Mr. Chairman, an issue that is very current, an issue that is probably the most critical for agriculture in the next month or so is a recent court decision on cargo preference as it applies to the Blended Credit Program which means higher shipping costs that have to be passed on to customers, and the Blended Credit Program is dead. The GSM-102 Credit Guarantee Program will be dead also if some future lawsuit subjects it to cargo preference.

We feel there is only one answer and that is that Congress overturn this court ruling and, at the same time, reform our maritime laws. If we want to subsidize the maritime industry for reasons of defense, let us put it in the cost of defense budget where it belongs and not on the backs of agriculture. We need truth in budgeting and we need a total exemption for agricultural products from cargo preference, and that includes the Public Law 480 Program.

Thank you, Mr. Chairman, and I will be happy to answer any questions.

Senator **Boschwitz**. Would we not be encouraging other countries to subsidize their exports, invade our markets, and then receive free wheat, in effect, if we did that with the Brazilians?

Mr. **Asendorf**. We are basically, with our main competition running into subsidized exports.

Senator **Boschwitz**. Certainly from Brazil. But other people would say, well, the way to get some free wheat is to subsidize our exports.

Mr. **Asendorf**. They have to purchase our products first, to get it.

Senator BOSCHWITZ. They get the wheat for nothing.

Mr. ASENDORF. I mean it would only come along with the purchase of another commodity. As they buy that, instead of paying the interest on the loan, they would be subsidized, or given the wheat in lieu of the interest.

Senator BOSCHWITZ. I thought I understood your Brazilian example differently. Maybe I did not listen carefully enough, but I think what you said is that Brazil would retain some of their soybeans for their own market, which is underfed, as you pointed out, and then we would give an equivalent amount of wheat.

Mr. ASENDORF. To whatever that percent would be offset, right. If they would reduce, for instance, if they would reduce their sales 2 million tons, the value of that 2 million tons would, then, in turn—they would get wheat from the U.S. to offset that cut in reduction of income that they would have earned from the reduction of sales.

Senator BOSCHWITZ. I will read your testimony and think about it a little more carefully, but it would seem offhand you would encourage other people to become predators on the market also, so that they would get some of that free wheat. Maybe I misunderstand the example, but I will figure it out later.

Mr. Barr.

Mr. SEARS. Our chairman, Mr. Barr, could not be here at this hour.

I am Earl Sears, executive vice president of the National Cotton Council, from Memphis, and with your permission, I will submit his statement for the record, and just highlight it.[1]

Senator BOSCHWITZ. Do that.

STATEMENT OF EARL W. SEARS, EXECUTIVE VICE PRESIDENT, NATIONAL COTTON COUNCIL, MEMPHIS, TN

Mr. SEARS. First, Mr. Chairman, the cotton industry is strongly supportive of the programs we found to be effective in the export area, and here we include Public Law 480, the GSM Credit Program and the Guarantee Program.

Our industry exports over 50 percent of our annual production of raw fiber, and a significant volume of our cotton seed oil, and we can testify with strong experience that Export Credit Programs, such as the Commodity Credit's GSM-102, GSM-5, and similar programs have been very successfully utilized by our industry.

We have many classic examples where our industry has been able to develop a market, and then maintain a market. Public Law 480, both in raw cotton and in value-added products, was used very early in developing the Japanese market, and we can likewise point to that.

I would say, in recent years, though, because Public Law 480 has been targeted to food first, it has not been an effective tool for us.

We think there are applications where that might still be done in Bangladesh and other countries. The question, of course, overwhelming us today is what to do about the overvalued dollar.

Likewise, we have a big oversupply of world cotton, due to central economies expanding drastically, without consideration to market signals, and we also find ourselves to be an import-sensitive industry.

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[1] See p. 655 for the prepared statement of Mr. Barr.

In answer to the question of what do we do, we believe the first thing we should do is strengthen these fundamentally sound programs that we have found to be effective and cost-effective in years past.

In addition, we think we may need to consider short and medium term authority to defend the U.S. traditional markets in this apparently very special time.

In regard to the first point, we urge the committee to strengthen the Commodity Credit Export Credit and the Credit Guarantee Programs. We strongly urge reauthorization of the revolving fund, and suggest that you and your colleagues urge your friends on the Appropriations Committee to appropriate the funds needed to operate that program.

If we had done it earlier, and had been putting the payments back into that fund, it would not be the budget problem that we are now confronted with.

In addition, we believe the Credit Guarantee Program should be continued, and the committee is urged, to appropriate adequate funding.

Like the previous speaker, we think consideration should be given to some compensation factor in these GSM Credit Programs, in relation to the dollar exchange rate, perhaps as measured against a basket of currencies. The current utilization of these programs, because of the tremendous risk in the exchange rate, certainly is causing responsible buyers to be unwilling to sign long-term obligations.

We believe that there should be language in the authorizing legislation instructing the Secretary to utilize the Commodity Credit Programs to stauchly defend any markets threatened by subsidized and, again, centrally planned economies, where they are increasing production without regard to real market conditions, and have obviously targeted markets which have historically been serviced by U.S. exports.

In addition to strengthening the CCC Export Programs, we urge members of this committee to reject the imposition of origination fees on those programs. A 5-percent fee will insure that the program is used only by countries which have no alternative, and thereby guaranteeing that defaults will result in losses far beyond the original fees collected. We think this would be very bad for the program, and we would like to see the fee schedule—currently one-third of 1 percent—kept, so that there is no increase in that fee.

Finally, we urge the committee to exempt all commercially oriented export credit programs from cargo preference requirements, and that in this budget, if it is a national priority, as it might well be, we urge that that budget for maintaining those maritime programs be shifted to a department with overall responsibility for the maritime fleet versus doing it in the agricultural budget.

We think that ultimately increased world consumption will be a key to a healthy U.S. agricultural economy and strong world trade. In this respect we urge the committee to develop a revitalized position on market development by strengthening the existing Agricultural Cooperator Program. Our commodity groups must have the complete and full infrastructure offered through the Foreign Agricultural Service, if we are to be in a favorable position to further develop and mantain markets for U.S. products.

We will just say, finally, Mr. Chairman, we think the United States must continue to be a leader in these programs, as well as international bodies, such as the International Institute for Cotton, to try to urge all countries to build a larger market, to work together to build larger markets.

Finally, we would encourage, in the overall context of trade policy, that it be coordinated and planned. The tools must be available to stimulate exports, maintain markets and retaliate against actions of other governments, when they are clearly self-serving, and inconsistent with world supply and demand.

That concludes the highlights.

Thank you.

Senator BOSCHWITZ. Thank you very much, Mr. Sears.

Mr. Hauck.

Mr. HAUCK. Thank you, Mr. Chairman.

I think I am the last witness today, and I suppose lunch is calling, so I will be very brief, and submit my remarks for the record.[1]

Senator BOSCHWITZ. The last witness always is brief, because if they have listened to all the others, they will recognize that there is a certain amount of repetition.

STATEMENT OF SHELDON J. HAUCK, PRESIDENT, NATIONAL SOYBEAN PROCESSORS ASSOCIATION

Mr. HAUCK. The National Soybean Processors Association supports most of what has been said here this morning. I think the main point of our testimony was that the committee and the Senate take cognizance of a separate effect of Public Law 480 Programs.

The obvious meritorious benefits of humanitarian relief to countries that have nutritional needs and deficiencies in the diet can be solved by commodities moved under Public Law 480—as well as developing new markets—both of which have had proven results over the years since the program was initiated.

I think it is particularly apt that we recognize the economic effect that these programs have on the American farm community in the United States, and specifically in the soybean complex. The Congressional Research Service recently completed a study that demonstrated, or at least makes the case, that in the current economic framework, doubling for instance, of Public Law 480 exports of soybean oil could be done at virtually no cost to the United States Treasury.

If you take all the consequences that flow from that, increased prices to soybean farmers for their soybeans, through the increased demand, lower prices for the meal fraction, stimulating increased utilization in the United States; lower poultry and meat prices to United States consumers, I think we can and we should take cognizance of the effect on the United States of what the Public Law 480

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[1] See p. 657 for the prepared statement of Mr. Hauck.

Program does, as well as what it does for recipient countries overseas.

The soybean complex particularly has been—at least the crushing end of it—devastated in the past 4 or 5 years by trade policies of exporting countries, such as Brazil and Argentina, and others.

Our efforts, at least through the Trade Representative's office, in our section 301 case, have brought little, if any, relief or measurable progress to date, other than very long and very complex, involved proceedings with those countries and others. There were six in the original filing 2 years ago. The case continues to move at a glacial pace, I might add.

But if we cannot obtain relief through administrative remedies in the Trade Act, and otherwise, we would submit, expended Public Law 480 exports is one way that the Congress and those on the Hill who are sympathetic to the plight of American agriculture, can provide humanitarian relief to ready and willing recipients.

There are certainly markets for soybean products around the world that could benefit from Public Law 480, whether it be title I or title II. I do not think we would have any trouble moving the merchandise, as it were. It can provide immediate, quick, short-term relief in part for American farmers, at least in the soybean complex.

I do not know what the math is for other commodities, but I would presume it is similar. And, Mr. Chairman, outside of echoing what many of our other friends have said here today, that is the essence of the NSPA's position or thoughts they wanted to bring to these proceedings.

Thank you.

Senator BOSCHWITZ. We are trying hard, as a matter of fact, to get at least one-half million tons of soybean oil into the Public Law 480 program, in the most expeditious manner. I have spoken to a number of people about it, and hopefully we will have some success.

We agree with you, Mr. Sears, that the 5-percent origination fee would probably not create much of a fund, but create perhaps even more bad debt, and I understand that that would have a devastating impact on that program.

We will oppose that, and it is not clear to me, because I have not looked at that at all in the negotiations that are going on on that particular item, if it has surfaced again. We will go back and take a look at it, because I understand that there is some talk about compromise, and making ~~it~~ similar to FHA, which is 3.8 percent, but that, too, would be a very heavy toll.

Well, we indeed appreciate all of you waiting so patiently during the course of the morning, and appreciate all of you participating in this hearing. We will incorporate in the record the full statements of all of the witnesses who did not read it.

The hearing is adjourned.

[Whereupon, at 1 p.m., the committee recessed, to reconvene at 9:30 a.m., Monday, April 15, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Conservation and Research and Extension Issues

MONDAY, APRIL 15, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, at 9:30 a.m., in room 328-A, Russell Senate Office Building, Hon. Richard G. Lugar presiding.

Present: Senators Lugar, McConnell, Melcher, and Heflin.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. This hearing of the Committee on Agriculture, Nutrition, and Forestry is called to order.

This morning we will commence our hearing with testimony on the general farm legislation by the distinguished Governor of the State of Idaho, John Evans. He would have been accompanied by the distinguished Lieutenant Governor of Indiana, John Mutz, except for the fact that the State legislature remained in session and continued through the night in some emergency. So you will have to proceed on your own, Governor Evans, and following that testimony, we will have the testimony this morning on conservation and this afternoon on research matters.

There are a very large number of witnesses, and we are delighted that there is this much interest in the legislation. But after we have completed with Governor Evans' testimony this morning and we proceed into the panels on research and conservation, the Chair will ask that witnesses now begin to compose themselves for the thought of 5 minutes of testimony. I would ask that you summarize the most important points in terms of oral testimony with the promise that the full written statements will be made a part of the record in order that we have the complete record for all Senators to examine prior to markup of this legislation.

At this time, it is a very great pleasure to have the Governor of Idaho with us, Governor Evans.

Would you proceed with your testimony.

STATEMENT OF HON. JOHN EVANS, GOVERNOR, STATE OF IDAHO, ON BEHALF OF THE COMMITTEE ON AGRICULTURE, NATIONAL GOVERNORS' ASSOCIATION

Governor EVANS. Thank you very much, Mr. Chairman.

We are all concerned about the current plight of our Nation's farmers. The Governors recognize the need to refocus and renew our Nation's long-term agricultural policy. The written testimony I am presenting today on behalf of the National Governors' Association addresses three issues which will be of prime importance to the Committee on Agriculture as you draft the 1985 farm bill. They are the Federal deficit, the role of Federal agricultural programs, and the long-term conservation programs.

In the interest of staying within the time allowed each of our witnesses, I will restrict my remarks to the third issue of long-term conservation programs.[1]

The Governors are opposed to cuts in conservation and research programs which undermine the Nation's long-term commitment to these important program areas. Current fiscal pressures dictate targeted agricultural programs. As a nation, we must realize the greatest returns possible from expending limited Federal resources for agriculture. We recognize that our production capacity is far beyond what the markets can absorb. Now is the time to provide the intermediate programs which preserve our natural resources. The Governors believe that soil and water conservation legislation must be enacted which simultaneously addresses supply control and environmental protection through cost-efficient farm programs.

It is time to reverse the philosophy of planting fence-row to fence-row which prevailed during the seventies.

Agriculture has enjoyed increased productivity because of scientific advances made through agricultural research. Experts anticipate heightened productivity gains when wheat and corn hybrids are developed and natural resistance to adverse weather and pest conditions are inserted into seeds. Therefore, experts predict that we can continue to meet gradually climbing increases in demand for food using available cropland. There is no need to maintain production on marginal land.

We recommend that the Senate Agriculture Committee carefully study sodbuster and conservation reserve proposals. We commend the administration for supporting a sodbuster provision. The Governors believe that we also need to build on the conservation reserve approved last year by increasing its size to 30 million acres. The measure would complement enactment of a sodbuster provision. Whereas sodbuster provisions are used to discourage bringing highly erodible land into crop production, the conservation reserve would be used to move highly erodible lands from crop production to a less intensive use.

A conservation reserve will prevent the permanent loss of valuable topsoil and the pollution of our rivers and streams. At the same time, it removes some of the excess capacity that is choking our commodity markets. It is an idea that is in keeping with a sound long-term agricultural policy.

There are up to 44 million acres of erodible cropland. USDA estimates the cost of a nationwide conservation reserve to average $30 per acre. A 30-million acre conservation reserve could therefore be set up for a cost of about $900 million annually. Nine billion dollars over a 10-year period is less costly and more effective than another PIK Program.

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[1] See p. 659 for the complete statement of Governor Evans.

There are several reasons why the reserve might be more efficient. The first is the use of a bid procedure in laying out the land. If yields are lower than average on the land a farmer offers for the reserve, the bids the farmers offer will have to be scaled down accordingly. If grazing of retired land is allowed, the bids should be lower still. Under current programs, the Government often pays the full price of diverting land of average productivity, yet allows farmers to divert their least productive land.

The second improvement in efficiency would arise from the selective, long-term retirement of specified tracts of highly erodible land. Under current programs, farmers have many opportunities to satisfy the set-aside requirement of crop programs with their least productive land. This is because any land in a farm's base acreage can be used to satisfy the set-aside requirement, and the specific tract generally need not be designated until just before the final compliance date for the program, and that date is usually quite close to harvest time. For example, if a 10-percent set-aside/diversion is required for the wheat program, farmers will often plant most of their farm to wheat, then observe which fields grow best as the season advances. Just before the final compliance date, they can mow or clip the fields where yields seem lower, designate this land as set-aside or diversions, and still comply with the program.

A conservation reserve would also reduce the cost of commodity support programs. The reduction in production would lower the Commodity Credit Corporation nonrecourse loans, deficiencies payments and storage payments for the farmer-owned reserve. These savings should be included in net cost calculations of a conservation reserve. This would significantly lower the estimated program cost below that $900 million annual estimate.

Idaho was one of the three States to host a 1983 USDA Pilot Land Conservation Program. For an average of $173 per acre, cropland was placed into permanent vegetative cover for 10 years. We had many willing participants at the low cost of $17 per acre per year. Similar programs were operated in South Dakota and in Alabama at even lower costs. In the Idaho Pilot Program the cost of converting the land to permanent cover was cost shared at 75 percent. While this increases program costs, some assistance is important to many farmers today who would not otherwise have the cash flow to enter the conservation reserve. Further study is needed to determine the necessary incentives for program participation.

The Governors believe that the conservation reserve should set-aside land for at least 10 years. It may be feasible to operate the program through the Commodity Credit Corporation to avoid obligating $9 billion in 1 fiscal year, or the reserve could be also phased in over several years. We recommend that the Secretary of Agriculture should conduct a study 7 years after the program initiation to determine if retired land should be returned to production or be eligible for a second retirement program.

In summary, Mr. Chairman, the Nation's Governors endorse the goal of deficit reduction supported by President Reagan but believe that agriculture should not unduly bear the burden of Federal budget cuts. We must not sacrifice a long-term agricultural policy and environmental benefits for the short-term budget gains.

The Governors believe that a sound long-term agricultural policy must be enacted to ensure that agriculture also receives the opportunity for strong recovery. Therefore, we support enactment of sodbuster and conservation reserve provisions in the 1985 farm bill.

Senator LUGAR. Thank you very much, Governor.

We have been joined by the distinguished Senator from Montana, Senator John Melcher, during your testimony.

Senator MELCHER. Thank you.

Senator LUGAR. I have a quick question or two.

Your estimate is that for a 30 million acre conservation reserve, about $30 an acre would be required to idle this land.

What background or basis would lead you to the $30 estimate?

Governor EVANS. It was an estimate after some rather serious study of what had happened during the soil bank program, updating the estimate of those costs. In Idaho, as I indicated, we had $17 a year bids on setting that land aside. Both in South Dakota and Alabama, it was even lower than that, so we think the average will be very close to that.

Senator LUGAR. How large a program did you have in Idaho, how many acres?

Governor EVANS. It was just a very small amount, a pilot program for some 2,500 acres.

Senator LUGAR. Your recommendation is for a 10-year program?

Governor EVANS. Yes, a 10-year program. It would seem to be a minimum length of time. Once again, we are talking about the marginal land that needs to be set aside, the erodible land, the land that needs to be protected. Idaho has a very large number of acres in that particular area that have been broken down, hillsides that probably should never have been broken up many years ago.

Senator LUGAR. Senator Melcher, do you have questions of Governor Evans?

Senator MELCHER. No, Governor, I really do not have any questions. I just want to commend you for your testimony. I am thankful that the Governors and the Senators are going on the same course. It is high time we get something done for conservation, and I believe that despite the extremely tough budget year, this is the year to move and to move rather forcibly.

Thank you very much.

Governor EVANS. I have been holding some personal hearings all through our State on agricultural issues, and it is a very, very serious problem. We estimate about a third of the farmers are in good financial condition, about a third of the farmers are in marginal condition, and about a third of them are in a loss position and will essentially be phased completely out of agriculture if we do not have a farm program similar to what we are proposing by the National Governors' Association. It is just a desperate circumstance at this particular point, and we have had a great number of witnesses appear before us who indicate the seriousness of the problem.

Senator LUGAR. We thank you very much for coming and we hope you will share with us additional findings you have from your hearings and testimony on behalf of the Governors.

Governor EVANS. Thank you very much.

Senator **LUGAR**. Thank you for coming.

The Chair would now like to call a panel of witnesses, and if they will come and be seated along this side of the table; Clarence Durban, vice president of the National Association of Conservation Districts, Washington, DC; Norman Berg, Washington representative, Soil Conservation Society of America, Washington, DC; Allen Farris, chief of the Fish and Wildlife Division of the Iowa Conservation Commission, Des Moines, IA, representing the International Association of Fish & Wildlife Agencies; and Farris Gray, representing the Southern Iowa Resource, Conservation & Development, Bedford, IA.

Gentlemen, we deeply appreciate your coming to the hearing this morning. As I mentioned at the beginning of the hearing, we would ask that you summarize your testimony into 5 minutes of oral testimony. We will have a counter with a bell ringing audibly at the end of 5 minutes. I apologize for truncating your testimony in this way, but it is a way in which we can make certain all witnesses are heard, and your full testimony will be a part of the record for our examination. I would like to ask for you to testify in the order that I introduced you.

First of all, Clarence Durban.

STATEMENT OF CLARENCE DURBAN, VICE PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. **DURBAN**. Thank you, Mr. Chairman and Senator.

My name is Clarence Durban. I am vice president of the National Association of Conservation Districts.[1] I am also a corn and soybean farmer from central Ohio.

NACD believes we need four points to promote the wise use of soil and water conservation in this country. That is commodity programs that are tied directly to conservation, a strong sodbuster provision, a conservation reserve to remove highly erodible acres from crop production, and continuation of the Federal Conservation Program.

Insofar as the Commodity Programs are concerned, we support changes in those programs that will require the Department of Agriculture to consider a land's capability insofar as eligibility to participate in those programs that are devised. We feel that we can no longer afford to avoid that particular issue. There are many thousands of dollars spent by city, county, State and the Federal Government to remove sediment from waterways, and we feel that must be stopped at this time.

Diversion programs that are enacted in the future should also have strong conservation provisions. First, we would suggest that the idled acres be required to be adequately protected from wind and water erosion for the full period of that time. Insofar as sodbuster provisions are concerned, we believe that there is still an urgent need for Congress to adopt statutory provisions tying the eligibility of those programs to that land's capability. We believe that an operator who brings in highly erodible noncrop acres into production without an approved conservation plan should not participate in those programs.

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[1] See p. 662 for the prepared statement of Mr. Durban.

Insofar as the conservation reserve is concerned, we support the establishment of that particular issue such as has been suggested by the Governor of Idaho.

We feel that we need a definition of highly erodible land that is easy to use and understand by both operators and field technicians. We feel that particular conservation reserve can be instituted at a substantial cost savings as has been indicated by the previous speaker.

In general, we would suggest a couple other general actions to enhance the Federal Soil Conservation Programs. First, we believe we need to reauthorize the Soil and Water Resources Water Conservation Act of 1977 in that we believe it needs to be extended and should be done every 10 years as opposed to being done every 5 years so that we might know where we have come in the past and keep a record of what has happened. We would also suggest that more consideration might be given to the State priorities in developing a national program.

The last suggested change for that particular RCA Program would be to extend it through the year 2005, which would be a long-term proposition.

We would encourage you to support the continuance of a strong Federal component to this Nation's Soil Conservation Program. State and local governments have increased support of conservation programs throughout this Nation dramatically in the last few years. If we fail to support the Federal side of this balanced program, we are going to lose those gains that have been made at such cost and at so much endeavor in the past years.

As those district officials who are in charge of these programs back home look forward to the future, we ask that you, the Federal Government, join us. Starting with the 1985 farm bill, we see the day when crop production and conservation will be seen not as a tradeoff of one against the other but working in conjunction together. We are working for a day in the future when we can guarantee a stable abundant food supply without compromising the quality of our environment.

In closing, I would just say that the National Council of the National Association of Conservation Districts also considered very seriously the Federal deficits and recognized the fact that those deficits need to be lowered. However, we feel that if we can all share in those kinds of deficit cuts, attempts to cut the deficit, then we all will prosper in the future.

Thank you for the opportunity to testify.

Senator LUGAR. Thank you very much, Mr. Durban.

Norman Berg, you are next.

STATEMENT OF NORMAN BERG, WASHINGTON REPRESENTATIVE, SOIL CONSERVATION SOCIETY OF AMERICA

Mr. BERG. Thank you, Mr. Chairman and members of the committee.

I am Norman Berg, representing the Soil Conservation Society of America. We do appreciate the opportunity to testify, and I do request that our full statement be made a part of the record.[1]

Senator **Lugar**. Without objection, so ordered.

Mr. **Berg**. There has been concern for land and soil and water and how they are used as a characteristic of our country since our independence. The primary responsibility for soil conservation has been assigned to the USDA Soil Conservation Service since April 27, 1935. A week from this Saturday, over 1,000 people will commemorate that occasion. It is being observed throughout the country. I wanted to commend Gov. John Evans for, on March 1, proclaiming that week in Idaho as Soil and Water Conservation Week. This sort of thing is being done all over the country.

In 1985, these programs are being examined. Are they still needed? The fiscal year 1986 budget raises some serious questions about the U.S. Department of Agriculture's program in soil and water conservation. Are they working as well as they should? Even though much has been done, the Nation does face some serious threats of soil loss and water degradation, and part of our problem is that we have a gap traditionally that has existed between mainstream farm policy and conservation.

The 1982 national resources inventory data—and I arranged for the conduct of that during my tenure as chief of the Soil Conservation Service—is finally somewhat belatedly being released. I have attached a couple of tables to my testimony. What does it tell us? It tells us that there are serious problems in some land that is being cropped. There are at least 41-plus million acres of land that we, because of our capability in the agricultural system, do not need for production that is causing very serious soil loss. That 1982 NRI update of the 1977 inventory is several times better than the appraisal data that was submitted to Congress through the early RCA process.

My organization, SCSA, since its formation in 1945, is dedicated to advance the science and art of good land use. I am proud to be a charter member and a fellow, and we are especially proud of our Journal of Soil and Water Conservation. In 1983, we put out a special edition that was in such demand that we had to reprint it on conservation tillage. We have just released, in 1985, a special edition dealing with nonpoint sources of water pollution, and I would like to make a copy available for the committee's use.

Senator **Lugar**. Thank you very much.

Mr. **Berg**. Our members have this and we will have extra copies on request. It deals with the off-site damages that are concerning us about soil loss as well as the problems on the farms, ranches and forests.

The Soil Conservation Society of America is going to join all of the people that have been working with a great deal of consensus to support a strong sodbuster law. It is too bad we did not have that 10 or 15 years ago, but we have that as history, and I think we need it now. We also need a conservation reserve. We support a 30 million acre reserve. We support the 10-year contract process. We support the bid process because if we encourage use of the vegetation by the land users, we think we can reduce the cost of that program.

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[1] See p. 664 for the prepared statement of Mr. Berg.

There needs to be an examination of a payment cap for producers, and an acre cap to deal with some of the problems of rural areas. It will produce savings not only in soil, and that is quite significant, but it can produce savings in Federal spending. The American Farmland Trust that will follow us this morning has some interesting and very valuable data in this area.

I feel that it is time for a national policy on protecting our topsoil similar to what we did in water quality in the 1970's where we established some parameters.

We do appreciate the opportunity to testify. There are other things we would like to see considered during the farm bill, but thank you for the opportunity.

Senator **Lugar**. Thank you very much, Mr. Berg. Thank you also for submission of the conservation publication and the tables which are part of your testimony. It will be very helpful to us.

I would like to call now on Allen Farris.

Mr. Farris.

STATEMENT OF ALLEN FARRIS, CHIEF, FISH AND WILDLIFE DIVISION, IOWA CONSERVATION COMMISSION, DES MOINES, IA, REPRESENTING THE INTERNATIONAL ASSOCIATION OF FISH & WILDLIFE AGENCIES

Mr. **Farris**. Thank you, Senator Lugar.

I am Al Farris, chief of the Fish and Wildlife Division for the Iowa Conservation Commission, and also chairman of the Wildlife Habitat Protection Committee of the International Association of Fish & Wildlife Agencies.

I would like to request that our full written statement become a part of the record.[1]

Senator **Lugar**. Without objection, so ordered.

Mr. **Farris**. As most of you know, Iowa is an agricultural State. On the average, Iowa is first in corn production, second in soybean production, first in hog production, fifth in grain feed cattle, second in total value of agricultural products produced, and second in the export of agricultural products.

On the other hand, Iowa also has soil erosion rates among the highest in the Nation. The rate is twice the national average. On the average soil losses on 11.3 million acres in Iowa, or 43 percent of Iowa's total cropland is 22 tons per acre per year.

You are considering the future direction of agricultural legislation. Our interest is not just narrowly focused on fish and wildlife. We recognize that farmers must be assured of a fair return on their investments, soil must be used but yet conserved, water quality must be improved, and fish and wildlife habitat must be provided.

With these goals in mind, we would like to make the following recommendations for the 1985 farm bill: No. 1, ensure that conservation features are integrated into all commodity programs. Conservation measures have traditionally been treated as add-ons in farm legislation.

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[1] See p. 666 for the prepared statement of Mr. Farris.

No. 2, a broad sodbuster provision should be incorporated into the agricultural legislation. This provision would eliminate Federal farm program benefits for the conservation of noncropland into production. It does not seem reasonable for Federal incentives to be provided to add cropland to produce commodities already in excess.

No. 3, a long-term conservation reserve program should be developed to remove the most erosion prone lands in cropping. This program should utilize long-term contracts with adequate compensation to farmers to reflect the loss of income and the cost of establishing a suitable cover crop. Land retired from production in a conservation reserve program should be managed to reduce soil erosion, improve water and provide wildlife habitat. Recent programs of the past have failed to maximize these benefits, basically because they have been annual programs.

In 1983, fish and wildlife agencies from 12 Midwestern States surveyed those annual set-aside acres and we found that in the 12 States are approximately 43 million acres set aside. About 20 percent or 9 million acres had no cover on them at all. They were bare dirt. Obviously, no soil conservation or wildlife habitat benefits. About 37 percent or 16 million acres had last year's crop residue and volunteer vegetation or only volunteer vegetation as a cover crop and did not provide adequate soil erosion protection and very little wildlife habitat. About 32 percent of 12 million acres set-aside had newly seeded cover crops that provided less soil erosion benefits than expected and poor wildlife habitat. There are several reasons for this miserable record, but the most important cause is that the recent set-aside programs have been annual programs. The programs have not provided the desired linkage between commodity and conservation objectives.

A conservation reserve program must be developed that will make it so that farmers can plan over a long-term period instead of 1 year at a time, and commodity supplies are reduced by taking land out of production on a more sustained basis rather than the current situation where farmers are yanked back and forth between fence row to fence row production and massive annual set-aside programs.

We also urge that the farm bill look at reducing contradictory regulations that often weaken the conservation benefits. Several references to wildlife in the wheat and feed grain programs can be used as examples. I think these suggestions for the 1985 farm bill are complimentary and acceptable to those interested in resource stewardship and agricultural production.

Thank you very much for this opportunity to comment.

Senator LUGAR. Thank you very much, Mr. Farris.

I would like to call now upon Farris Gray.

Mr. Gray.

STATEMENT OF FARRIS GRAY, REPRESENTING THE SOUTHERN IOWA AGRICULTURE BOOSTERS AND COUNCIL OF IOWA RESOURCE, CONSERVATION AND DEVELOPMENT AREAS

Mr. GRAY. Thank you, Mr Chairman. It is indeed a pleasure to speak to you today concerning agricultural legislation as it relates to soil conservation and the RC&D areas.[1]

This year our Nation celebrates the 50th anniversary of the soil and water conservation movement. This country, and especially Iowa, has come a long way since the Dust Bowl era. The President has proposed Federal conservation programs be severely cut or eliminated in 1986. If approved, this budget proposal would mean the loss of two-thirds of the Soil Conservation Service personnel across our State as well as the Federal cost-share and assistance programs which help fund conservation practices.

Today, Iowa ranks first in the Nation in the amount of soil loss. It takes over 1,000 years to build up 1 inch of topsoil. Yet in only 100 years we have lost one-half of it.

We hear much talk about national security. I believe, as do the people I represent, that one of the greatest defenses this Nation can have is a well protected, high quality land base. We must take all precautions to prevent future dependence on other nations for our food, fiber and minerals. Have we not learned a lesson from our energy dependence and the vulnerability which results?

In 1984, 4,000 landowners in 14 southern Iowa conservation districts were assisted through Federal and State cost-share programs. Some examples of our RC&D assistance in southern Iowa included the establishment of rural water, securing millions of dollars in funding for senior citizen housing, new roads, bridge replacement, community buildings. RC&D areas generate 10 to 20 times the yearly Federal cost of operating their offices, plus one must not forget that these programs have created hundreds of jobs in a depressed economic area.

I am here to ask that you pay close attention to legislative items relating to soil conservation. The Federal budget support for soil conservation remains vital. To undercut the soil conservation programs with any more than an across-the-board Federal spending cut would be disastrous.

Senators, please realize that soil conservation and profit in agriculture interface. In 1981, the farm bill resulted in a desperate situation. The problem is that there is no profit. Adjusted to 1967 dollars, from 1940 to 1983, net farm income went down 74 percent while investment in assets went up 223 percent. Farm incomes continued to decline over these years even though we experienced rapid increases in exports and production.

On March 7, 1985, in the Senate hearings for the 1985 farm bill, Secretary Block conceded that he could not name a farm group or a farmer who agreed fully with the White House's free market proposal and agreed that that proposal would result in a reduction of farm income over the next several years, promising by the end of the decade that farmers would prosper when export markets increased. Yet, a USDA tabulation provided by Secretary Block indicates that prices for corn and other basic grains would not be much higher in 1991 than now. We must ask ourselves how many of our farm families will still be around to enjoy the promised land.

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[1] See p. 668 for the prepared statement of Mr. Gray.

My wife and I operate a medium-sized farm which grosses $125,000 to $175,000 in southwest Iowa. This farm size is a group of 12 percent of our Nation's total farms, responsible for 69 percent of U.S. total agricultural sales. It is these medium-sized farms that are having some of the most severe difficulties under present economic conditions. Our land was purchased between the years of 1956 and 1972, which was purchased before the large increase in land prices, unlike the image fostered by those wishing to camouflage a severe agricultural economic problem by focusing on a few speculative agriculture investments made by a few farm entrepreneurs. We have not made great facility investments, but due to low commodity prices, record high real interest rates and unfavorable weather conditions, our net worth has decreased. One or two more years with this rate of decline will find us insolvent.

In summing up, I would like to ask that you have concern for our soil conservation and also the farm policy of 1985 because farmers that do not make a profit cannot afford to implement soil conservation, and we definitely need that.

Thank you.

Senator **Lugar**. We very much appreciate your hands-on testimony as a farmer out there in the country.

Senator Melcher, do you have questions of these witnesses?

Senator **Melcher**. Yes, I do, Mr. Chairman.

Clarence, is it fair to say that the situation now with soil conservation and erosion is more than serious?

Mr. **Durban**. Senator, yes, I think it is more than serious.

I remember as a young boy the dust clouds that came from the West. Being from central Ohio, we did not have that kind there, and I remember that, and I see worse than that now, because of our way of life, because of the vast number of acres that have been tilled, and have been taken out of grasslands, and so forth. I see worse than was experienced during the thirties.

I see in my own State of Ohio something over $600 million spent to dredge silt from streams. I feel that much of that, and a lot of that comes from some land that should not be in production, from some marginal lands. Some of it comes from urban development, that is understood, and we need to recognize that, and need to address it. But I think it is serious.

Senator **Melcher**. Is it an emergency?

Mr. **Durban**. I guess I am not in a position to say it is an emergency, when we have the vast amounts of surplus piled up that we do. I am not sure for the reason for some of those.

I have an idea that because of some things politically we cannot get rid of some of those surpluses to countries, or to people who are starving in other countries. But to say it was an emergency, I would not be responsible if I said we had a emergency today. Down the road I think it is heading for an emergency for our grandchildren.

Senator **Melcher**. Norman, do you think it is serious, or an emergency, or both?

Mr. **Berg**. Senator Melcher, I think both, and I will explain.

We have new conditions within the last decade. We all know the reasons for it, but we came out of the seventies from the all-out production in the high producing areas of the country, where many fences disappeared, and we were farming out to the barrow areas. We have continued to have some sodbusting that has been subsidized in part by Federal activities, including our tax laws, at the Federal level.

So there are conditions here that I think that we have to address. There are limited areas in this country that do not have some soil and water conservation problem, but there is a lot of good management going on. Conservation tillage can resolve some of this, along with other management resource systems, but there are literally millions of acres of land that have moved over into intense crop use, that would be better off with other vegetation, grass, or in forests. On those acres it is serious.

Is it an emergency? Only in these conditions that are very severe, where we have thin soils, we are down to rock in a few years, and that sort of thing, and one of the reasons is that conservation is a long-term activity. We are benefiting now from the work done in previous generations. That is why we are recognizing 50 years of effort a week from Saturday, Senator, and you are going to help do that.

I think we have to recognize that we cannot hold this up as a big current crisis in good faith, but we have got to address the problems now for the future.

As a person with eight grandchildren, who are going to be around in the mid-next century, I am concerned that they have the same opportunities that we have had.

Senator MELCHER. The first time I ever saw Montana the only fences up were the extra good fences which caught tumbleweeds. The tumbleweeds would then cause the fence to go down. There were not any barrow pits across the State from the eastern end, to almost Glacier Park, which is about 500 miles or so, because they were filled with dirt.

I see that kind of erosion coming back. That was a disaster in the thirties, and I think in our State we are between an emergency and a disaster. There really is no money from the operators at this standpoint, because they do not have any profit. And, if it is going to be Federal dollars, it is a pretty tight budget year.

How are we supposed to get any money? What are you proposing, that we get more money this year?

Mr. DURBAN. Mr. Chairman and Senator Melcher, the National Association of Conservation Districts has proposed from the beginning that we have an across-the-board freeze. I recognize sometimes that is looked on as not a sound statement.

Senator MELCHER. No, it is not. Let me assure you, Clarence, it is not sound, and it is not sound for conservation. It would be sound to go above where we have been. Maybe it is not as bad in other places as it is in Montana, or some of that western country. I am not sure. It is not all from sodbusting.

We need a sodbuster bill very badly. But that is not the main problem. This is from the effects of not having had any real cost-share program for 15 years. Is that too long? Did we have one 15 years ago that meant something? Maybe. We have not had one that meant anything for 10 years. Does this not mean more money?

Mr. **Durban**. It means more money.

Senator **Melcher**. From the Federal Government.

Mr. **Berg**. The cooperative effort among the State, Federal, and local governments, needs to be reinforced. The local and State governments and the private sector have been doing more than the Federal Government in the soil and water conservation area, and we need to urge that they do more.

But what I see coming up this year in terms of the 1986 budget year, for soil and water in USDA, is very discouraging. They send a very bad signal to the non-Federal governments in the country, and I will say that this afternoon in the Senate Subcommittee for Appropriations.

Senator **Melcher**. We are all priorities around here. I think it is more important than a lot of defense spending.

Mr. **Berg**. We would also plead——

Senator **Melcher**. Do you?

Mr. **Berg**. Yes. I think the basic natural resource base of our country is very important to the security of our Nation, in the long-range.

Senator **Melcher**. Is it a lot more important than a lot of defense spending, or not? Unless you people can say that, I do not know how you expect Senators to vote that way. I am going to vote for more money, not less money. I am going to make sure that everybody does.

Mr. **Berg**. Senator, I am a conservationist, in every regard, including the use of public funds, but I think we have to give more attention to some of our long-range needs.

Senator **Melcher**. Does that not mean more money?

Mr. **Berg**. It will mean more encouragement, more incentive to the land users who are going to face some very difficult days, as to how they can do the job.

Senator **Melcher**. Since they do not have money, or almost all are out of money, does that not mean more money from the Federal end?

Mr. **Berg**. In my field, I would encourage that.

Senator **Melcher**. The operators do not have the money. Clarence?

Mr. **Durban**. Senator, possibly yes. But if a conservation reserve were established, there are figures available through USDA that say it would cost less money had we a conservation reserve as opposed to a lot of short figures we have seen over the past farm bills that have encouraged the tillage of marginal land.

A lot of our problem lies there, and we all see that. I too am interested in the defense of this Nation. Along with a lot of other folks, I have gone through one of those sessions, and it was not pleasant. We have to have defense, but if I could not have eaten aboard that Navy destroyer, I would not have lasted as long as a bullet from the enemy.

Senator **Melcher**. I think we are going to have to be pretty tough and pretty specific about what we are talking about. I do see an imminent emergency that exists now, that I think in some of our areas, at least in our State, can be an outright disaster in loss of topsoil from erosion. We are probably going to pass a sodbuster bill this year, but that is not where it is all at. It is just part of it. It is a smaller part than the whole.

Mr. **Durban**. I agree.

Senator **Melcher**. I really feel that unless we are going to get some demands from people who are concerned about this, that we upgrade immediately our effort on soil conservation, I guess we will just drift along, and leave us at the disaster level, or take a couple of bucks and make it a little lower.

Thank you very much.

Senator **Lugar**. We have been joined by the equally distinguished Senator from Alabama, Mr. Howell Heflin.

Do you have any questions of these witnesses?

Senator **Heflin**. It sounds like too many of you ate C rations, the way you are all talking, in the last conflict. But C rations make you appreciate food. [Laughter.]

What do you see as conservation tillage as a movement relative to soil conservation, and what has been your experience with it? Do you think it has greater potential, and should it be emphasized? What is your feeling about this?

Mr. **Gray**. I am Farris Gray from southwest Iowa. I think it has great potential, although on some marginal land, that does not have any protection at all, you still get a lot of water running across the hillside, and erosion. But for good cropland, we can minimize soil loss greatly with conservation tillage.

We have done quite a little bit on our farms. I think it is fine. It is probably the least costly conservation we can implement. So I would support it very much, but I also support a long-term conservation reserve, for, like you said, a 10-year period, or such.

Senator **Heflin**. On the conservation tillage, have you run into any more problems in your sections of the country with insects or disease, or the use of herbicides, anything different relative to this?

I am wondering whether or not we ought to put some sort of emphasis on research for the related problems that sometimes arise with conservation tillage.

Mr. **Berg**. Senator, the Department of Agriculture, and 60 organizations, cosponsored a conservation tillage session at Nashville, TN last October, and the results of that conference, I think, would be valuable, because it was examined from every possible angle. Conservation tillage is promising. Nearly 90 million acres have some sort of reduced tillage. About one-tenth of that has what we would call, really very effective almost not till. There are still problems that need to be addressed, that need additional research.

There are certain types of soil that this does not effectively handle yet, including our marginal lands. We also have, I think, the problem that it is one practice of a resource system that needs to be installed on a farm-ranch activity, and it plays a very promising role in that regard if it is properly handled.

Mr. **Farris**. I am Allen Farris from the Iowa Conservation Commission. We were involved in a cooperative study with the Soil Conservation Service in Iowa, the southwest part of Iowa. In fact, we looked at wildlife populations, insects, weed control, et cetera. Granted, there is a great variation in conservation tillage methods, and that is one problem when you talk about conservation tillage.

There is a whole range of things out there, but the study that we are involved in, and Iowa State University is also involved, and they found really no significant problems on those soils as far as productivity, or weed or insect competition, or lack of effective fertilization or herbicide use.

I agree with Mr. Berg. It is probably not for all soils, but in that situation it was very effective.

Mr. **DURBAN**. Senator, Mr. Chairman, as a practicing farmer, who has practiced some no till, no till on my own farm, who has spent many dollars in research, that was not available anywhere else, in equipment, in herbicides that companies furnished to us on a research basis, seed, the whole gamut, that is the reason some of those practices do not work on some soils. We have not had the research on all those soils to test that out.

Most certainly, where it is used, and it has been used on my own farm, erosion is reduced. Some of that land is flat like a table, but with that kind of tillage practice we do not have the wind blowing the soil away. So there are savings there.

There are savings on sloping land, insofar as erosion is concerned, but most certainly the research is needed for both the equipment that is used, for the herbicides, for the seeds, and we cannot rely on individual companies for that kind of research.

I have spent dollars from my own pocket. That is not going to happen in the years down the road because of the economic situation that we find ourselves in, in a lot of cases, but most certainly it is the practice that we need to expand on, and one that will work.

It is not, however, the total answer to the erosion problems.

Senator **LUGAR**. Thank you very much, Senator Heflin.

Gentlemen, we deeply appreciate your coming this morning.

Senator Melcher, do you have another question for this panel?

Senator **MELCHER**. I have one question of Mr. Gray.

You may be the only one really testifying very seriously on RC&D's. I have gone through your testimony, or skimmed it as best I could during your testimony. I do not see a dollar figure here.

Mr. **GRAY**. You mean a total dollar figure for that?

Senator **MELCHER**. Do you have one?

Mr. **GRAY**. I think our local RC&D has about $50,000 for the seven counties in southern Iowa, which is just south of where Mr. Farris lives.

Senator **MELCHER**. I wonder if we can get a figure.

Norman.

Mr. **BERG**. It is around $26 million, or $27 million. Each year the budget has recommended a full phaseout of RC&D.

Senator **MELCHER**. We tried to hold it at $50 million in 1980 dollars.

Mr. **GRAY**. There are some RC&D areas that have not been able to use their money at times, and we have always had projects ready, sitting there, so if somebody had a few dollars extra we were right there ready to go, and we have been very effective.

We have gotten a lot of conservation done that otherwise would not have been done. A lot of it has been along the roadways, or more or less protecting the municipal water supplies, and that sort of thing, where individuals do not do that. RC&D has worked more for overall large conservation programs that are not done by SCS on individual farms.

Senator MELCHER. Thank you.

Mr. GRAY. We have gotten our money's worth out of it.

Senator MELCHER. Thank you, all of you.

Senator LUGAR. Thank you for sharing your experiences with us. We appreciate it.

The Chair would like now to call a panel composed of R. Neil Sampson, executive vice president of the American Forestry Association of Washington, DC; John Bethea, State forester of Florida, Tallahassee, FL, on behalf of the National Association of State Foresters; Robert J. Gray, director of policy development of the American Farmland Trust, Washington, DC; and Kenneth A. Cook, consultant in agricultural policy, Washington, DC.

Gentleman, we welcome you to this hearing. If you will proceed in the order I announced you, first of all, Mr. Sampson.

STATEMENT OF R. NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, AMERICAN FORESTRY ASSOCIATION

Mr. SAMPSON. Thank you, Senator Lugar, distinguished members of the panel.

I am R. Neil Sampson, executive vice president of the American Forestry Association. I am pleased to be here today to talk about the 1985 farm bill.[1]

In the 1985 farm bill, Congress has the broadest public consensus in memory agreeing to the need to incorporate conservation in the total farm bill package. At times we wish there were that much consensus about that what total package should be, but there does seem to be a good consensus about incorporating conservation and trying to prevent some of the conflicts that have existed between the Commodity Control Programs and the conservation goals of the Nation.

So, we think that it is important that conservation be incorporated in the farm bill. We need to realistically face the fact that a solid soil conservation program of technical assistance, research, and education needs to remain intact, as the previous witnesses have discussed.

Let me raise two points, however, where this farm bill has incredible opportunities beyond some incorporation of conservation incentives in the regular programs. The first is in the sodbuster provision which this committee has developed in the past. We must not lose sight of the goal of that whole effort, which has been ongoing now for over 2 years in this committee and across the Congress. The basic goal of that effort is to demonstrate that after 100 years of USDA activities in soil conservation, we know the difference between a pile of blow sand and good cropland, and that we can, in fact, ask the public not to subsidize or to assist in the farming of lands which simply are not capable of supporting cultivation.

In the 2 years that we have been arguing about whether or not we ought to have this definition or that definition, or whether we ought to do this detail or not, the throttles have been pulled back on the developer's tractors in much of the country. And while it may not solve the total problem, the sodbuster law would close the door on many abuses. It is vital to incorporate in the 1985 farm bill.

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[1] See p. 675 for the prepared statement of Mr. Sampson.

We still need to look, however, at the 100 million acres of America's cropland that is eroding at more than double what the USDA says is the tolerable rate. That is 1 cropland acre out of every 4 and nothing short of a conservation reserve is going to get at that problem. Others are going to testify about the economic impacts of a conservation reserve. We think you can save money by a decently designed conservation reserve.

We would like to point out that in much of the country, people who are interested in forestry are interested in the conservation reserve because much of the marginal cropland land ought to be put back in trees. That might not be true in parts of Senator Melcher's State of Montana, however.

Senator MELCHER. Parts of the State, it is true.

Mr. SAMPSON. The forestry community is a little split on this issue, particularly on the industry side, where some people feel we should not subsidize plantings of trees. We think, however, that argument fails in the face of the problem on America's cropland. We also think if you can establish a conservation reserve that assists people to make the transition back to other economic uses and allows a bid basis to take place such as the one worked out last year in the House of Representatives, will negate that argument. You are not then using Federal money to subsidize competitive planting of grass and trees, you are helping transition into other economic uses. That type of a reserve program is not only economic but which is very sensible in the light of today's conditions.

Senator, I would close there and just tell you that a great share of the forestry community is very enthusiastic about trying to assist the Congress this year in achieving a good conservation intertie in this year's 1985 farm bill.

Thank you very much.

Senator LUGAR. Thank you very much, Mr. Sampson.

Mr. Bethea.

STATEMENT OF JOHN BETHEA, FLORIDA STATE FORESTER, TALLAHASSEE, FL, ON BEHALF OF NATIONAL ASSOCIATION OF STATE FORESTERS

Mr. BETHEA. Thank you very much, Mr. Chairman.[1]

I appreciate the opportunity to be here and, Senators, I am State forester of Florida, John Bethea, and I have with me today a State forester from the great State of Kansas, Mr. Jay Schultz.

The Association of State Foresters, as I am sure you know, gentlemen, is composed of the directors of the State forestry agencies of each State. We recommend strongly there be a conservation reserve in the 1985 farm bill to establish and maintain protective vegetation cover, and including trees, on the erosion-prone land we have now in crop production.

In addition to that, and I had not heard testimony on this, we recommend an agricultural forestation title to plant and maintain vegetation for limited windbreaks, shelterbelts, and living snowfences to conserve the soils in the Great Plains and other wind erosion areas. We feel those two titles are very important. There are a number of reasons why we believe that.

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[1] See p. 677 for the prepared statement of Mr. Bethea.

No. 1, there is a continuing pressure to do something about soil erosion, and I have heard the testimony here this morning. And while in Florida it is not at all that great, we have some very, very erosion-prone acreage but not as many as other States.

No. 2, continuing pressure to take land out of agricultural production, and reduce the surplus.

No. 3, pressure on Congress to reduce the debt burden on the farmers.

No. 4, some disenchantment among environmental groups about traditional agricultural practices that are going on now on the erodible land and on the very marginal lands.

We need to move the farmers back to profitability and, as has been mentioned in the testimony, we feel this will do that. There is a great need in our opinion to expand the long-range timber production for the years 20, 30 and beyond.

Forestry can make a contribution in these areas by assisting in the reduction of soil erosion, taking agricultural land out of crop production, and can help the farmers pay off the debts and, in many cases, they will be better off having that land out of row crops and into trees.

The association has developed a proposal for a conservation reserve on erosion-prone and marginal cropland, and we also have a proposal for a forestation title and, Mr. Chairman, we have filed that with the committee for the record. We will provide that to the committee which I indicated we already have.

Forest cover is more permanent than vegetation, and it is important in preventing and reducing soil erosion and improving water quality and wildlife habitat. There is no more compelling resource priority in our opinion than the protection of the soil that we as a nation depend on for our food, either now or in the future, and the discussion on whether it is serious or an emergency, I think anything that is going to create an emergency on down the road is serious, and I do not think there is any question but what that will occur in the years ahead if we do not address it now.

If highly erosive soils were placed in a conservation reserve and planted in trees, erosion rates would fall dramatically, as all of you know, and this is important. In addition, dollars would be saved for the Treasury by not being spent to subsidize the crops that would otherwise be produced on the marginal land.

Wind caused soil erosion is a major problem in the Great Plains. A system of properly designed and appropriately spaced field windbreaks protecting the land could reduce wind erosion to virtually zero. It is clear from research conducted around the world that crops protected by windbreaks yield better on the average than those that are not, and we have some detailed information in our written statement which you have for the record.

The NASF, the National Association of State Foresters, maintains that lower costs diverting acres through tree planting is obtainable. There is a substantial lower cost of establishment for trees than for grass, and the Soil Bank Program of the late fifties and early sixties proved that there is an almost 90 percent retention of the land that goes into trees.

The State Foresters believe that forestry can play a major role in solving some of the problems in agriculture. However, there needs to be the incentives for the placing of the vegetated cover and for taking the land out of production.

Mr. Chairman, Senators, we know it is difficult times for agriculture. It is difficult times for the Nation. Nevertheless, our soil and water resources are the underpinning of our future, and the National Association of State Foresters believes it is appropriate to include a conservation reserve title and an agricultural forestation title in the 1985 farm bill. And although it is not so important in my State, we certainly support the sodbuster element too.

Senator LUGAR. Thank you very much.

Mr. Robert Gray.

STATEMENT OF ROBERT J. GRAY, DIRECTOR OF POLICY DEVELOPMENT, AMERICAN FARMLAND TRUST

Mr. GRAY. Thank you very much, Senator Lugar and Senator Melcher. I appreciate the opportunity to be here today.[1]

I am going to confine my remarks, Mr. Chairman, to the discussion of the conservation reserve. Realizing that one of the major features of this is whether or not we can have cost-effective savings in putting say as much as 30 million acres into a long-term conservation reserve, we at the American Farmland Trust clearly agree with the need for sodbuster legislation. We have supported it in the past. We certainly hope and feel this committee will place it in the 1985 farm bill.

I think though that we have worked with almost every group around town in the conservation community and with a number of other farm groups, and there is a strong consensus on the need for a conservation reserve. A 30 million acre reserve could reduce erosion, total erosion rates by as much as 600 or 700 million tons per year compared to about 70 million tons we are getting under current programs. It has to be integrated though into the commodity programs in order to be effective, and we have done a great deal of work at the American Farmland Trust in looking at what the cost savings and total cost of a conservation reserve would be.

I know that Governor Evans gave some excellent testimony on the need for a reserve. We went to the great length in our testimony to calculate what the cost would be for a 10 million acre reserve and what the savings would be, and I would just point to pages 12 and 13 in my testimony, Mr. Chairman and Senator Melcher, where we cover scenarios on a long-term conservation reserve.

I recently noted that the Senate leadership, the Budget Committee, in trying to work out an additional cost savings for the 1985 farm bill, at least there is some agreement there should be as much as $8 billion more saved possibly out of farm programs as you move into putting the 1985 farm bill together. But we worked out three scenarios here for a long-term conservation reserve.

One scenario was based upon a freeze, a current freeze of current target prices of the major crops, and it would take out all 30 million acres the first year. I am not sure that is possibly feasible, but we do have to do something. We have to do it relatively quickly. Many places in the United States we are at an emergency situation from the standpoint of soil loss. But if we were able to take out 30 million acres and get close to that out in 1 year, the price enhancing effects of taking that kind of acreage out around 70 million acres was wheat, 10.5 million acres was feed grains including soybeans, and another 2.1 million was cotton, the price enhancing effects of that and the lowering of deficiency payments and somewhat less storage costs plus the fact that we would be making a savings on annual diversion payments which many people feel, and I think it is pretty conclusive, that they have not been very effective in terms of reducing supplies and certainly we have got almost no conservation from the past, but taking out that much land quickly, we could show over a 5-year period as much as a $6.4 billion savings. That is in scenario one.

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[1] See p. 679 for the prepared statement of Mr. Gray.

Our second scenario we ran covered a 30 million acre reserve, again with a freeze on target prices. Only this time we took out the land over 3 years, 10 million acres per year. That might be more realistic in terms of the ability of ASCS to identify this land and get it out of production and get it back into grass or trees. Even doing it that way and having less price enhancement from the longer time period, it still shows a $4.1 billion savings which I have included in my testimony over a period of 5 years.

We went one step further. Seeing that the possibility existed that there might be a reduction in target prices, we ran a scenario lowering target prices by as much as 5 percent per year over a period of 5 years, and that showed, including the long-term conservation reserve, including taking out 10 million acres per year over a 3-year period, and that showed a savings of about $13.6 billion. Of course, a great portion of that, about $9 billion, was in the lowering of the target prices by 5 percent per year, but we still had over $4 billion again in savings over a long-term conservation reserve

Therefore, we believe, and many of the organizations that work with us believe, that this program can be very competitive and can work within any framework that the Senate Agriculture Committee comes up with for the 1985 farm bill and can help reduce overall budget deficit that we are all concerned about, include savings in the 1985 agriculture program, and get substantial soil savings as well, and get some money in the hands of farmers who certainly need it at this time.

I appreciate the opportunity to testify, Mr. Chairman, and we look forward to answering any questions you might have.

Senator LUGAR. Thank you very much, Mr. Gray.

I would like to ask staff, have copies of Mr. Gray's testimony been distributed? I do not have a copy.

Senator MELCHER. I have a copy.

Senator LUGAR. Thank you. I am getting them from all sides. I wanted to be sure to be able to follow the figures that you mentioned which are extremely important.

I would like now to call upon Kenneth Cook.

STATEMENT OF KENNETH A. COOK, CONSULTANT IN AGRICULTURAL POLICY

Mr. COOK. Thank you, Mr. Chairman.[1]

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[1] See p. 687 for the prepared statement of Mr. Cook.

I would like to talk about the other half of the conservation package that a lot of us have been working on now for 3 or 4 years, the sodbuster policy that we feel goes hand in hand with the conservation reserve. They will not work separately. Not politically and not in the field either. We think it is very important that we have both a sodbuster policy and a conservation reserve this year in the 1985 farm bill.

Toward that end, if I might skip through my testimony up to page 5 by summarizing it and saying that analyses that have been done by the Department of Agriculture, by the National Academy, by the American Farmland Trust, and by many researchers outside these agencies, have clearly shown that unless we can convert some of our erosion-prone cropland to permanent pasture, hay, trees, or rangeland we are never going to solve our erosion problem, regardless of how much money you pump into the traditional agencies that have been charged to conserve soil. We need a new approach.

Second, we are not going to be able to control erosion on a portion of the land that is being brought into production today. Twenty percent or more of the land brought in to production between 1979 and 1982 was highly erodible. The only way to control erosion on good land is to maintain it in permanent cover.

So these measures—the conservation reserve and sodbuster—can complement our existing conservation programs, and the money to support these new approaches should come out of a different fund. It should come out of the Commodity Programs that encourage this destructive conversion of land to cropland and which could instead be used to help make a transition back to sustainable uses.

On page 5, I talk about some of the principles of a sodbuster policy that a number of groups now support around the country. A great many groups support it in fact. It is considerably stronger than the version that passed this committee last year and stronger even than the bill that was passed on the House side. There is very broad consensus for such a stronger measure, and I would like to go through some of the points now if I may.

First of all, there is a very strong feeling we should shorten the grandfather period from the 10- to 12-year period that is in most legislation to 5 years. There are two reasons for that really. The first reason is that we feel a 10-year period is extraordinarily long in terms of allowing a lot of land that should not be exempt from the sodbuster bill to be exempt.

Second, we feel a 10-year period would be very difficult to administer at the local level. Most ASCS offices do not have records on cropping patterns for individual farms extending back a full 10 years. We think a 10- to 12-year period would make it very much more difficult to administer the policy and make it much more open to challenge. Most of the land that is now in production would not be covered by the sodbuster policy by shortening this period, but some would.

There is a feeling that in 1990 we should consider extending the sodbuster policy to all lands, whether it be cropped or not. In effect, we would provide farmers with a 5-year grace period to enroll in the conservation reserve, retire the land from production on their own, or risk losing their eligibility for Commodity Program benefits.

On the definition of highly erodible land, the second point we are concerned about, we strongly disagree with USDA's position. And when I say we, I mean a number of organizations from the American Farmland Trust to Audubon, Sierra Club to the Farm Bureau, strongly disagree with the USDA provision that uses the land capability classification system for defining highly erodible land for the purpose of the sodbuster bill. We think we have a much better way to do that which would be fairer to the farmers. It would require some field work on the part of SCS technicians, but we feel if we are denying program benefits to farmers, they deserve the best possible technical definition of highly erodible land and a site specific visit that will verify that.

Let me conclude by saying we definitely think that wetlands should be included in the sodbuster bill, and we are working on a definition to devise appropriate criteria. Those are the highlights of the stronger sodbuster bill that we have in mind.

Senator LUGAR. Thank you very much, Mr. Cook.

Mr. Gray, just to set in my own thinking some of the points that you have made, essentially you call for a 30-million-acre conservation effort and you estimate that about $44 an acre would be required to get the job done in the bid method.

Are these savings that you have projected over and above whatever that cost may be? You have several scenarios, I appreciate that, 10, 10, 10, or 30 at a time. But if you went 30 at a time, in your method it looks like about $1,320 million for each of the 10 years I would guess. Now, is the savings of $4 billion say in, I think, scenario one over a 5-year period of time over and above the cost of the $1.3 billion each year?

Mr. GRAY. Yes, sir, that is, Mr. Chairman. The savings would be achieved because you would get a price enhancement in those crops. For example, we figured in wheat you might get as much as 30 to 35 cents a bushel if you took 17 million acres of wheat out. You would get a price enhancement in corn. In your own State I think there would be strong interest in those crops. These are offsetting savings in terms of that cost. Our $44 was predicated on the fact that probably in addition to some of that land that Governor Evans talked about in the Great Plains and so forth that might come out a little cheaper, you would start to get into some of the Corn Belt land, and you are going to pay more per acre. But that is an average cost per acre. It also includes the economic assumption that the farmers would be allowed use of that land for haying, grazing, or taking timber in the long run, but we base those figures on a lot of discussion. The USDA in their calculations on a 20-million-acre reserve calculated or estimated it would cost about $40 an acre, but they did not let the farmers make an economic use of that land. They were making the assumption that the land would be idled for 10 years.

Senator LUGAR. In removing this land, you have had to make some assumptions on the yield for these acres and, presumably, we agree that these are the least productive acres in most cases. You are not going into 17 million acres here as the average, but definitely marginally lower.

Mr. **Gray**. Yes, sir. As a matter of fact, we figured those acres were about 80 percent as productive as the land that was currently in production. However, there are some cases—as you move toward the 30-million-acre reserve or beyond that, you would be probably getting some of that land out in ~~the~~ Palouse region or in western Iowa or northwestern Missouri that is eroding at very high rates, but is also very productive. But we did assume the majority of this land would be yielding less and built that into our assumptions, yes.

Senator **Lugar**. Is it logical that someone who had very productive land would bid to take that particular part out even though it did have erosion characteristics that were difficult?

Mr. **Gray**. Probably less so, although if he could grow, we will say, in western Alabama good alfalfa on that land and he saw he could cut that for hay or he could graze it or whatever, there might be the enticement there to move that land to a more sustainable use and to get it into a crop rotation. So we think it would pick up some of that land, Mr. Chairman.

Senator **Lugar**. Mr. Sampson, what kind of incentives would be required to get landowners to plant trees as opposed to graze or whatever else they might do?

Mr. **Sampson**. With the net profit figure that many people are experiencing today with corn, soybeans, and wheat, almost anything would look better. But there needs to be some intermediate economic use for the land. In trees, for instance, there is a chance to run a crop of Christmas trees, then a crop of intermediate products, and then go to the crop of pulpwood or timber. On these acres, where erosion rates are running at an average of 20 to 100 tons per acre per year, anybody that thinks there is very much long-term future in cropping is wrong. So if the incentive is to stay there, and farm that land in the future, we think dollars in the $40 per acre per year range are very realistic.

Senator **Lugar**. The $40, what does that mean? Does that bid cover all costs?

Mr. **Sampson**. Average for all situations. There is a lot of country where it is looking like $20 would be a closer number.

Mr. **Gray**. Some places it might be $100 or some places $10 or $20 an acre might get it out.

Senator **Lugar**. It is specifically more difficult to get a farmer to plant trees as opposed to haying. Are you testifying as a national objective we ought to plant more trees and, if so, how do people come to that option, having made the decision to go into the conservation reserve?

Mr. **Sampson**. In many parts of the country, where the experience exists with forestry and where the tradition and the infrastructure are there, it is not a difficult problem. It may be a problem to get hold of planting stock and to get planters, but that is generally not a problem in most parts of the country. In other parts of the country, the forestry tradition is not there and it would be more difficult.

Senator **Lugar**. Senator Melcher.

Senator **Melcher**. Neil, forgetting about trees for a minute, if the American Forestry Association will let you do that for a moment, how serious do you think the situation is? Is it just serious or is it an emergency?

Mr. SAMPSON. Senator Melcher, I was interested in your asking that question of the other witnesses.

In an environmental sense we have got a very serious problem, and in an economic sense, as near as we can tell, the rates of erosion that are taking place are inflicting an economic penalty. Those numbers are not well known, but our understanding of these costs is growing each year. We have got a crisis in soil erosion, but that crisis is not an environmental or economic crisis. It is an institutional and political crisis. The erosion problem has gotten worse while we have been talking about it for the last 10 years, and while conservation programs have been diminishing in effectiveness all over this country. We know there is no future in allowing what is happening to continue to happen, but right now we do not have an institutional response. So, therefore, we must not let the politicians, economists, or soil scientists tell us that we have got another 10, 15, 20, 30 years, and that means we do not have anything to worry about. We have got something to worry about. We do not know how to address what is going on out there. And unless we start, those 20 or 30 or 40 years are going to slip away from us pretty fast.

Senator MELCHER. That still does not get to it.

How much priority should this have? We do not spend very much on it, but how much priority should it have to increase 15 percent? How much would that be?

Mr. SAMPSON. It should have a lot of priority in two ways: The first priority that makes both budgetary sense and a lot of other of sense is to get the Federal Government to stop subsidizing the wrong things.

Now, if you do that, you still have got to put some more money into soil conservation programs, probably as much as a 25- to 30-percent increase over the next 4 to 5 years. I do not know where you are going to get it. You may be able to get it from the Defense budget if we believe what we read in the papers.

Senator MELCHER. I do not want to pick on them, but what do we need? About $40, $50 or $60 million more?

Mr. SAMPSON. I do not see how a conservation organization can not say that this is a high priority. We should trade it off against some of the things we are doing today which are highly costly and which seem to many people to have debatable long-term value.

Senator MELCHER. How much would it be per year if we did it exactly as you say and increased it 25 percent over the next 4 years? How much would it be the fifth year?

Mr. SAMPSON. The Federal Government is spending just under $1 billion a year in all 34 of the programs that USDA says are associated with the Soil Conservation Program. So, you are talking about a quarter of a billion dollars if you go up 25 percent.

Senator MELCHER. Should you just divvy it up? The first year a fourth of that?

Mr. SAMPSON. I think so. I also think USDA, through the RCA process, has discovered quite a few ways to improve their abilities to use those moneys. We have been in an intensive study of Soil Conservation Programs and priorities since 1977. While that has brought out a lot of healthy debate and a lot of healthy criticism, it has also brought out a lot of healthy improvement.

Are we going to reward this 5-year study and its improvements by cutting the program out? That seems to be an ill-timed attempt. Instead, we ought to look at the gain and give those people the resources to do what they have learned how to do better.

Senator **Melcher**. I am going to take that answer to mean there ought to be an increase of about $60 to $70 million this year. That is what you said, is it not?

Mr. **Sampson**. That is what I said.

Senator **Melcher**. Good.

Now, Mr. Gray, first of all, when you talk about taking 17 million acres of wheat land out over a 3-year or——

Mr. **Gray**. Three years or possibly 1 year.

Senator **Melcher**. In 1 year it would be 17 million acres?

Mr. **Gray**. Yes, sir.

Senator **Melcher**. If we did it in 3 years, the first year would be the least productive land, would it not?

Mr. **Gray**. Yes.

Senator **Melcher**. Perhaps, down around 40 to 50 percent of normal yield?

Mr. **Gray**. If you really got in that some of that very marginal land, it would, but I think if the program is offered nationally, you would still get some area, get some wheat up around in the Paloose and the other areas where the yields are higher.

But if you are talking about the first 6 million out of the first year, you might get that. We did not show in our scenario much enhancement with that kind of scenario the first year. It took about 3 years before you really started to show a price enhancement.

Senator **Melcher**. Any time we have done that, even doubling it, say we took 12 million, we would still have 73 million acres of wheat land, and every time we have done this, we find out the crop would be just as big as it would have been anyway.

Mr. **Gray**. I think the reason for that, Senator, on the Annual Diversion Programs is that there is so much slippage. With the conservation reserve, you are tying that land up for 10 years. You are identifying it and in an annual set-aside which you have happen, and I think Governor Evans even pointed this out, the farmer has the opportunity to wait until he looked at his crop before he declares which area he wants to divert. If the poorest fields will get diverted, for every acre you pay in annual diversion, you do not get an acre of reduction, and so the soil conservation reserve eliminates that slippage.

Senator **Melcher**. I am for this. I am a long-term conservation reserve proponent. I am very much for it, but I would not want to try to fool anybody.

In wheat land, that is how much?

Mr. **Gray**. 12 million over 2 years.

Senator **Melcher**. Doing it in 2 years.

Mr. **Gray**. To get up to the 17 or 18.

Senator **Melcher**. I doubt whether you could project that much savings because I think the yield would be about the same. But I am very much for it. I just do not think we can represent it as saving that much out of the Commodity Programs. I think it costs, but I think everybody wants to think, well, let us have conservation if it does not hurt. In other words, if it does not cost.

Well, it is going to cost, and I do not think we can kid ourselves or kid anybody by saying it is not going to cost. It is going to cost.

Mr. **GRAY**. Right. We show a cost of $1.3 billion.

Senator **MELCHER**. I heard you say it is going to cost and it is worth it. High priority.

Mr. **GRAY**. I agree with both of those comments. We stand by our figures and will be glad to work with the staff and go over those figures point by point so we think we are pretty close. We know the USDA showed a $850 million savings per year on a 20 million acre reserve, and we used a lot of the same assumptions as we went through. So, we stand by our figures.

Senator **MELCHER**. A model.

Mr. **GRAY**. No; we did not use them as a model, but we checked them.

Mr. **BETHEA**. I wanted to come back to trees. I cannot support this by research.

There is some indication, for example, in the South that a lot of land in the row crops will go to trees for no more than the cost of planting. The farmers realized they made a mistake in bringing it out of the trees in the first place, but now they are so broke they cannot put the trees back.

In other cases, they would need some payment equal to taxes maybe and that is all. So, in the South where we have the fast-growing softwoods and we have an excellent timber market, even through the depression of a few years ago, it was not all that bad, we do have what was referred to as sort of a history and the recognition of the value of trees, and we can get them in down there on that marginal land at a very, very minimal cost.

Senator **LUGAR**. I am glad there is a reconciliation of viewpoints.

Mr. **BETHEA**. They provide windbreaks, and it is very beneficial, living snow fences, and these kinds of things.

Senator **MELCHER**. Your testimony was very good on that point, and I understand that.

Thank you, sir.

Senator **LUGAR**. We have been joined during this testimony by the distinguished Senator from Kentucky, Senator McConnell.

Senator McConnell, do you have any questions of these witnesses?

Senator **MCCONNELL**. Thank you, Mr. Chairman. I appreciate the opportunity to be here, although I did not hear most of your testimony.

I would like to ask unanimous consent that I may be allowed to insert my statement for the record.[1]

Senator **LUGAR**. Without objection, so ordered.

Senator **MCCONNELL**. A couple of brief questions, Mr. Chairman.

It is certainly true that conservation of America's erodable soil can best be accomplished through planting trees. We were just making reference to that.

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[1] See p. 659 for the prepared statement of Senator McConnell.

As forest professionals, how can you convince a farmer with a huge debt load that he should take land out of production and plant trees, when he will not see any return on that investment for 25 years or more?

Mr. SAMPSON. Well, again, it just seems that what we have to go look at is whether there is net profits coming off that land right now, and in much of the land we are talking about right now, if you go out and take a look, there is a desperate attempt to generate cash flow because of the debt situation, but in terms of net profit, they are nonexistent.

But there is a transition problem, we thoroughly agree. That is why we think the conservation reserve payments are critically important. They are needed for income during the transition.

But, in fact, the possibility of using that land profitably in other uses is probably greater, both in the short and the long term, than the ways it is being used today, if we can help through that transition.

Mr. BETHEA. John Bethea from Florida. In many areas in the South, the very erodable and marginal and fragile land is only a portion of the land, and it just amounts to phasing back in and, as was said, there is no profit there now, and the only thing that would save the cost in many small farms is if you put on trees that do not require any attention, he will get a job in town to meet his mortgage payments, and profit that way, in addition to stopping the erosion on bis land.

Senator MCCONNELL. In Kentucky, of course, particularly the eastern part of our State, we do not have much flat land. I suppose certainly trees have been the best defense against erosion in that area of our State.

I am wondering about erosion problems in the steep pasture lands, the Appalachians, and the grazing land of the Great Plains. Is this kind of erosion a serious problem, and how do we convince farmers it is a problem?

Mr. SAMPSON. It is a serious problem, and some of the rangeland areas, some of the flatland areas in the Great Plains, are suffering some of the very worst erosion.

One of the things that has not been brought out, is that even in the heart of the Corn Belt, the 1982 studies show that over half of the soil erosion occurring is caused by the wind, not by water. This fortifies Mr. Bethea's testimony about the need to reintroduce and reestablish wind breaks, shelter belts, and other wind erosion control measures in the heart of the Corn Belt.

In the land resource area that encompasses northern Iowa and southern Minnesota, for instance, 14 million acres of some of the finest cropland outdoors is suffering 4.6 tons per acre per year loss from wind, out of a total about 8.5 tons of total erosion.

So it is really critical that we realize that the cropland that is suffering is not just the steep land, but some of the flatlands as well.

Senator MCCONNELL. Thank you, Mr. Chairman.

Senator LUGAR. Thank you very much, Senator McConnell.

Gentlemen, thank you very much for your testimony this morning.

The Chair would now like to call a panel composed of Ron Ellermeier, vice chairman of the Nebraska chapter of the Sierra Club, Glenville, NE; Maureen K. Hinkle, director of the agricultural program, National Audubon Society, Washington, DC; Justin Ward, agricultural project assistant, Natural Resources Defense Council, Inc., Washington, DC; and Dr. Laurence R. Jahn, vice president of the Wildlife Institute, Washington, DC; likewise Michael Heller, Clagett farm manager, the Chesapeake Bay Foundation, Annapolis, MD; and Michael J. Budzik, member of the Ohio Wildlife Management Association, Columbus, OH.

Lady and gentlemen, we appreciate your coming this morning. As you have heard from earlier testimony, we will ask that you summarize your oral testimony into the best 5 minutes that you can give.

Ms. **Hinkle**. And the shortest.

Senator **Lugar**. The shortest 5 minutes, and submit to questions from the Senators, following your testimony.

I would like for you to testify in the order in which I called your names. That means the first testimony will come from Ron Ellermeier.

STATEMENT OF RON ELLERMEIER, VICE CHAIRMAN, NEBRASKA CHAPTER, SIERRA CLUB, GLENVILLE, NE

Mr. **Ellermeier**. Mr. Chairman, Senator Melcher, and Senator McConnell, it is a privilege to be here today, and I said if I had the presence of mind and the eloquence to say what I would like to say in 5 minutes I might not have to farm for a living, but I cannot, so I do.[1]

I am a farmer from south central Nebraska. I have 760 acres. I am vice president of the Nebraska chapter of the Sierra Club, and also happen to serve on the board of directors of the Little Blue Natural Resources District. It is from this point of view I see these problems in Nebraska.

Mr. Gray, Mr. Sampson, Governor Evans, fortunately before me today, and others have very succinctly and eloquently outlined the problems that I see, and many of the solutions that I am here to recommend on behalf of the Sierra Club.

I would just like to relate this to a personal level. The problem that I see develop, or have seen develop from past farm bills has been that they have promoted the exploitation of the land, the plowing out of the fragile grasslands. In Nebraska essentially it would be the Sand Hills area and the draining of our wetlands and marshlands.

I think that Nebraska has lost over 90 percent of its wetlands over the years to agricultural development. Most of these statistics that are pertinent have already been given today.

In Nebraska we have 1 acre out of 5 that loses more than twice the amount of soil which can be regenerated naturally.

I believe in my written testimony, which you have, or I hope you have, I have included a picture which would show this, to document some of the soil erosion in Nebraska, and Mr. Weiss, my colleague here today, has a map he has brought along which shows soil loss across the Nation. The States with the worst soil erosion are outlined in orange and purple.

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[1] See p. 689 for the prepared statement of Mr. Ellermeier.

You will notice Nebraska is purple, with 22.9 tons per acre average. The parts that make it all very personal is I try to farm with the very best conservation ethic, and I am penalized for it. If I convert lands that are fragile, they add to my acreage base. If I do not develop fragile lands, I do not get the base, to start with, not to mention the extra crop production.

So it is with this thought that I would like to go into some of the recommendations the Sierra Club has.

Last year the Senate passed sodbuster legislation which has large loopholes, big enough to drive a tractor through in some cases. The club urges this committee to close some of these loopholes, and include several new protections in the 1985 farm bill.

We would like to see an end to Federal support for sodbusting. Farmers who cultivate highly erodable lands which have not been cultivated since 1980, as in Senate bill 598, should become ineligible for participation in the Federal farm programs.

The grace period in S. 616, which exempts any land farmed during the past 10 years is too long, as already was brought out today.

In Nebraska the worst plow out was in the Sand Hills in the 1970's. These lands, and also such as in the Colorado rangeland, plowed out in 1977, which I have a picture of in my testimony, would be excluded from the sodbuster penalties under that 10-year grace period.

I would also add, I do not have any figures for you, but I can tell you that some of the more fragile lands plowed out in the Nebraska Sand Hills, are sitting there with idle rusting pivots and no farming going on in these tough times. The sodbuster should be denied participation in all Federal farm programs for their entire operation.

It is my experience that if the penalty applies only to the crops grown on the highly erodible land, the sodbuster sanction is not a real penalty, is it just an annoyance.

I think we can logically make the extension from sodbusting to swampbusting. I think farmers who drain, fill, and convert wastelands into croplands should also become ineligible for participation in all Federal farm programs for all the lands in perpetuity. They should be able to convert wetlands if they wish, but they should not be subsidized for doing it.

I would also recommend on behalf of the club the establishment of the 30-million-acre conservation reserve, which has already been extensively discussed here today.

With that, I thank you for your time, and I would be happy to answer any questions.

Senator LUGAR. Thank you very much for your testimony, and you have covered a good number of points, in addition to those you were able to raise, along with the additional graphics that will be helpful to us.

I would like to call now on Ms. Hinkle.

STATEMENT OF MAUREEN K. HINKLE, DIRECTOR, AGRICULTURAL PROGRAM, NATIONAL AUDUBON SOCIETY

Ms. HINKLE. Thank you, Mr. Chairman.[1]

The National Audubon Society supports the other groups that have testified today in regard to a provision for the sodbuster, to discourage those who are considering plowing up new lands.

We also support a swampbuster, which is new coinage for a variation of the sodbuster, which we support to remove incentives to convert wetlands to crop production.

We also support a 30-million-acre conservation reserve, and we would like to note that now the debate seems to be between a 20-million or a 30-million conservation reserve, not whether or not to have a conservation reserve.

We also support, and this is not explicit in my testimony, the agricutural forestation title that John Bethea mentioned this morning. This would establish permanent vegetation in shelter belts, windbreaks, hedgerows, and we very enthusiastically support including that title in the rest of the provisions that we have testified to in the testimony.

We also support the establishment of a national policy for resource conservation for all Federal agencies.

I would like to call your attention to a chart which I have at the end of my testinony. It is chart 1 which shows that the acreage diversions we have had over the past 50 years can be divided into two 25-year periods.

The first period, between 1935 and 1960, actually averaged 15 million acres set aside per year. The second period, between 1960 and 1985, averaged 34 million acres. We can afford to set aside 30 million acres. The 34 million acres that were set aside in that last 25 years, however, were not geared to highly erodible lands.

If we enact conservation reserve, such as the kind we are debating today, this reserve would target highly eroding lands, put them into permanent vegetation, grass or trees, and this would be a considerable savings on our budget.

If you look at the chart, you can see that all of the annual set-asides are extremely expensive, which is why the 80 million set-aside in 1983, after a year of no set asides, came to a cost, although the estimates vary, between $14 and $18 billion for that year alone.

You will notice that the set-asides we had in the 1960's and early seventies, were a combination of multiyear as well as annual set-asides. Even so, because you had some that were in multiyear set-asides, the cost was considerably lower, despite the fact that many of these were as high as, 61 million acres set aside. The 65 million set aside in 1962 cost $1.1 billion, and the one in 1972 of 61 million acres was still only $2.7 billion.

When people ask today, how much would a 30-million-acre reserve cost, you bave to compare that to what we have seen in the past 25 years.

I also would like to call attention to my testimony on conservation tillage, between pages 13 and 16, which addresses the question that Senator Heflin asked.

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[1] See p. 691 for the prepared statement of Ms. Hinkle.

With that, I will yield the microphone.

Senator LUGAR. Thank you very much for your testimony.

Justin Ward will be our next witness.

STATEMENT OF JUSTIN R. WARD, AGRICULTURAL PROJECT ASSISTANT, NATURAL RESOURCES DEFENSE COUNCIL, INC.

Mr. WARD. Good morning, Mr. Chairman and members of the committee.[1]

We are pleased to be here today, as Congress begins its deliberations on this year's general farm legislation.

The Natural Resources Defense Council is a national nonprofit organization, with over 45,000 members and contributors. Our organization has maintained a strong interest in agriculture for the last decade.

We are here today to urge that conservation be given a prominent position in the 1985 farm bill. Our testimony briefly outlines the problems, as we see them, and proposes a reform strategy.

Despite the efforts of dedicated conservationists in the public and private sectors for half a century, soil erosion today remains a serious threat in rural America. Recent data show that 44 percent of U.S. cropland is still eroding at a productivity-threatening rate, with nearly a quarter of the cropland eroding at rates more than double what soil scientists consider tolerable.

In our view, we simply cannot afford to continue on this course. It is well established that erosion can have ruinous effects on soil productivity, but lately the offsite impacts have been quantified, as well.

Economic estimates of stream sedimentation, and other impacts away from the farm place erosion-related costs in the billions of dollars.

What needs to be done? We recommend a strategy that reduces incentives for destructive cultivation on fragile lands, while at the same time creating incentives for converting some of the most erodible land from row crops to other uses. As part of this strategy, we favor enactment of a strong sodbuster bill. We believe this initiative is long overdue.

It is important to identify the characteristics of strong sodbuster legislation. Last year we endorsed a bill that would have denied agricultural program eligibility to sodbusting farmers for their entire operations. We regard that as reasonable proposition, and we support a like provision again this year.

In addition, we favor limiting the grandfather exemption to lands that have been cultivated in the past 5 years, rather than a 10-year allowance in most previous sodbuster legislation.

We believe the definition of highly erodible land, which would trigger the restrictions on assistance to sodbusters should be based on site-specific erosion potential.

Also, we think that mechanisms like the sodbuster provision, ought to extend to other categories of fragile lands, including wetlands. We think it is simply good policy to limit Commodity Program assistance to conserving farmers. In that regard we support the intent of the provision of Senate bill 616 now under consideration by this committee, that would require producers who benefit from Federal Commodity Programs to follow conservation practices specified by local conservation districts, or ASCS committees.

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[1] See p. 700 for the prepared statement of Mr. Ward.

Alternatively, the sodbuster legislation could be adapted to extend gradually the disincentives to destructive marginal land cultivation. Another component of the erosion control strategy is the establishment of a long-term conservation reserve. The reserve should be aimed at those lands where conventional erosion control technologies are simply not enough to prevent resource damage.

The merits of the reserve concept, I believe, have been amply described by the previous witnesses.

In terms of cost effectiveness, we note that the reserve can yield more erosion control per dollar invested than can existing USDA conservation cost-sharing mechanisms.

Finally, we recommend that Congress address a number of conservation initiatives that have yet to receive the attention they merit. Included in this list, we recommend strengthening amendments to the Farmland Protection Policy Act.

Each of our recommendations is elaborated in our prepared testimony, and in conclusion, I would simply like to invite futher dialog with members of this committee and their staffs as the farm bill is developed.

Thank you very much.

Senator LUGAR. Thank you, Mr. Ward.

Dr. Jahn.

STATEMENT OF DR. LAURENCE R. JAHN, VICE PRESIDENT, WILDLIFE MANAGEMENT INSTITUTE

Dr. JAHN. Thank you, Mr. Chairman, and members of the committee.

I am Laurence R. Jahn, vice president of Wildlife Management Institute.[1] Our institute was initiated in 1911, and it is dedicated solely to the conservation and improved management of renewable natural resources.

We have cooperated with the agricultural interests for many years to encourage sound soil and water conservation practices.

We are pleased to give you some views and proposals for the 1985 farm bill.

Let me focus first on the most recent farm act, the 1981 act. It included a separate title, XV, on conservation. However, conservation initiatives were not written into the commodity portions of that particular law. This has proven to be a major weakness.

What we have done is go on with commodity programs, independent of conservation activities and, so, consequently, end up with the serious erosion problems that have been identified here.

When sediments wash off the land, and the chemicals associated with them, they create problems of water quality, as well as sedimentation of public waters.

Habitat features are lost for wild living resources. After a number of years of evaluating the role of conservation in agricultural commodity production, the Institute and other conservation organizations and State agencies developed specific recommendations to be considered for inclusion in future Conservation/Commodity Programs. These are attached to the statement that I have submitted to you.

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[1] See p. 702 for the prepared statement of Dr. Jahn.

The overall thrust of the policy and program recommendations are, first, to integrate conservation practices directly into the USDA Commodity Programs. There is a policy statement that is attached to my statement that provides you with some insights for helping ensure the integration is accomplished.

Let me summarize three major points. First of all, there should be a goal to correct, prevent and minimize soil erosion, with the objective of keeping soil losses within acceptable tolerance limits for particular soil types and situations, thereby ensuring productive and sustainable agriculture and other uses of the land.

The second objective should be to maintain and restore water quality, to perpetuate the physical, chemical and biologicial integrity of the waters of the United States, and to meet the national goals for water quality set forth in the Federal Water Pollution Control Act, as well as the parallel Acts that have been enacted in the individual States.

The third objective should be to sustain production and survival of wild living resources.

I would like to add that more than 50 percent of the people in the United States, 16 years of age or older, are involved with fish, wildlife and associated outdoor recreational pursuits. There is deep public interest, and I think this helps to explain why we see strong public reaction when there is degradation of the resource base.

On the second page of my statement ways are identified to improve commodity conservation efforts, particularly in regard to acreage set-asides and Sodbusting Prevention Programs.

Nine desirable program features also are submitted for your consideration. They are attached to the written statement. I want to call your attention to one that is of particular importance, the matter of established base acreage procedures. It was referred to by the first speaker on this panel.

Almost a year ago in the summer, when the tilling season was on, I had the privilege of doing a review in some of the States across this country. In a number of cases I saw farmers who had entered their entire farms into the then existing PIK Land Conversion Program.

Interestingly enough, some of those farmers also were converting wetlands and woodlands to other uses. When questioned why, they simply replied, that "we have a base acreage, and if we do not have a history of having raw crops on that land for 2 years, that land is not eligible for entry into the base acreage."

Interestingly enough, landowners are being encouraged to do two things by the very laws and regulations on the books. The first is to practice conservation, and the second is to convert lands in an exploitive manner. Incentives for converting woodlands and wetlands to croplands are strong, at the same time efforts are being made to curtail crop surpluses.

The other point I wish to make is that the institute supports the long-term conservation reserve. In addition, we support, and energetically ask you to consider the sodbuster and the swampbuster that has been mentioned here. Please contact us if we can be of any further assistance. We would be pleased to respond.

Thank you.

Senator **LUGAR**. Thank you very much, Dr. Jahn. You have fortified the testimony of Mr. Ellermeier earlier on with regard to the results of some of our policies.

I would like to call now on Michael Heller.

Prior to doing that, let me ask unanimous consent, which I will grant, that the statement by Senator Zorinsky be made a part of the record.[1]

Now, Mr. Heller.

STATEMENT OF MICHAEL HELLER, CLAGETT FARM MANAGER, CHESAPEAKE BAY FOUNDATION, ANNAPOLIS, MD

Mr. **HELLER**. Thank you, Mr. Chairman, and Senator Melcher.

I represent the Chesapeake Bay Foundation [2] which is a regional nonprofit conservation group which, since its beginning in 1965, has been promoting the wise use of the Chesapeake Bay region. We have a staff of 45, which includes scientists, lawyers, environmental educators, and one farmer, myself, and I would like to focus my testimony on two specific issues: No. 1, the conservation reserve for highly erodible lands and, then; No. 2, the swampbuster provision to discourage the conversion of wetlands to agriculture. I would like to relate these two issues to the specific situation of water quality in the Chesapeake Bay region and do it from our perspective as environmentalists concerned with water quality, and also from our experience as owners and operators of a 300-acre southern Maryland farm where we not only recognize but daily deal with the problems that farmers face on a day-to-day basis.

The basic problems are well documented in EPA's $27 million study which was carried out over 5 years. This study showed that agriculture made significant contributions to the problems of water quality in the Chesapeake Bay, contributing about 27 percent of the phosphorus and 60 percent of the nitrogen that was flowing into the Bay in an average rainfall year.

I first want to direct my comments to the conservation reserve.

As a farm manager, it has become very clear to me that no farm can be at its economic peak if it is losing significant amounts of soil and fertilizer, yet most are. The question comes, why if economic and water quality reasons dictate wise farm management of soil and fertilizer do we have a problem? And the problem, as many people stated, is a serious one. I think the problem lies in a large measure in the limited means that we have to control and encourage control of soil erosion.

In the State of Maryland, an agricultural task force was set up to look at this very problem. In their nine-page report, they said that the only way to control it was to send trained soil technicians out to every farm and work on a one-to-one basis with farmers and develop and implement soil conservation plans. They estimated the best we could hope for would be to do this in a 10-year period, and this is including the 42 soil technicians that the State of Maryland has added to the existing force in their effort to clean up the Chesapeake Bay. Thus, the concept of a conservation reserve in which we can target areas very quickly will have a much more immediate impact on soil erosion. It is estimated in the Chesapeake Basin there are about a million acres that are highly erodible and would be qualified or eligible for a conservation reserve. This one million acres represents only about 10 percent of the total farmland in the Basin, and yet it contributes over 50 percent of the runoff problems. So a conservation reserve, we feel, would be one of the most effective measures to immediately get to the problem of soil erosion.

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[1] See p. 658 for the prepared statement of Senator Zorinsky.

[2] See p. 705 for the prepared statement of Mr. Heller.

It is attractive to us as farmers in three ways: No. 1, it is voluntary; No. 2, it would give individual farmers a modest income from marginal lands which are not any fun to plow up anyway; and No. 3, by reducing the acreages would hopefully reduce surpluses and enhance the market values of crops which can only be good for farmers.

A second issue we want to address is the loss of wetlands to agriculture. The Office of Technology Assessment estimates that there are about half a million acres of wetlands that are lost annually throughout the country. Over 80 percent of these are lost to agriculture. In the Chesapeake Bay region we only have a half million acres to begin with, so we are very concerned about the loss of wetlands. We feel that farmers who drain and plow up wetlands should be denied farm program benefits.

By discouraging conversion of wetlands to agriculture through a swampbuster provision, it would basically mean three things: No. 1, we would save some valuable wetlands, and they are valuable in many ways I will not go into; No. 2, we will benefit the average farmer by discouraging increased production and discouraging surpluses; and No. 3, we can save the Government a bundle of money in several ways. First, by reducing acreages, we will reduce surpluses and, again, enhance market values. And if deficiencies are being paid, we would save money there.

Second, the Government is the main funder of the draining and clearing of wetlands and spends hundreds of millions annually there, and it would save a considerable amount there. Also in maintenance of drained areas, which can be very expensive.

Third, those farmers that would decide to enter or to farm wetlands would become ineligible for benefits, and the Government would save on that end.

So, in conclusion, I would just say that we resolutely support, both as farmers and as environmentalists: No. 1, the conservation reserve for highly erodible lands; and No. 2, some swampbuster provision to protect wetlands from conversion to agriculture.

Senator LUGAR. Thank you very much, Mr. Heller.

Mr. Budzik, you are next.

STATEMENT OF MICHAEL J. BUDZIK, MEMBER, OHIO WILDLIFE MANAGEMENT ASSOCIATION, COLUMBUS, OH, ACCOMPANIED BY DAVID RISLEY

Mr. BUDZIK. Thank you for the opportunity to be here, Mr. Chairman and members of the committee.

I am Michael J. Budzik, and I am speaking for the Ohio Wildlife Management Association and the Ohio chapter of the Wildlife Society.

I would like to recognize David Risley with me. He coauthored this paper.

We, along with six other Ohio organizations, strongly support the eight recommendations of the National Resource Council of America. Mr. Chairman, I would like to include these recommendations and the list of supporting organizations for the record.[1]

Senator LUGAR. So ordered.

Mr. BUDZIK. Our experiences in Ohio will provide insight into the necessity for strong conservation measures in the 1985 farm bill. According to the U.S. Departments of the Interior and Commerce, the 1980 National Survey of Fishing, Hunting, and Wildlife Associated Recreation in Ohio illustrated that $1.1 billion was spent on wildlife recreation. That is $104 million for nonconsumptive wildlife recreation, $300 million for hunting, $700 million for fishing. You can see these expenditures by wildlife recreationists make a significant contribution to Ohio's economy.

During the past 25 years in Ohio, approximately 2.5 million acres of grass crops grown for seed, hay crops and lightly grazed pasture have been converted to row crops. This has resulted in severe population declines, up to 90 percent in the farmland wildlife that require grass/legume nesting cover.

Mr. Chairman, in terms of hard numbers, our pheasant population fell from the 1960 3.7 million to less than 200,000 today.

Federal farm policy is the largest single element affecting soil conservation and farmland wildlife in our State. Grassland conversion and concurrent wildlife population declines are the direct results of Federal farm policy failure. Farmland wildlife population levels and distribution are directly linked to the Federal cropland retirement programs due, in part, to the significant acreages involved. Mr. Risley and I have worked closely with several USDA agencies over the past 6 years and recognize serious shortcomings in current farm policy that you have the opportunity to correct.

The first and foremost problem is the lack of Federal farm program stability. The key to getting conservation on the land is prohibiting the conversion of noncropland to cropland and removing erosion-prone cropland from production on a long-term basis. Since the demise of the Soil Bank Program of the sixties, the wheat and feed grain programs are the only programs to remove a significant amount of Ohio's cropland from production. Unfortunately, these programs have failed to live up to their billing in influencing total crop production and have varied greatly from year to year, minimizing any conservation features incorporated. How can the landowner establish any type of semi-permanent cover which normally takes two years to establish, on so-called acreage conservation reserve land when the rules and incentives are changed annually? To further reduce conservation benefits, the rules are often changed after the game has started. Signup dates are extended, target prices are changed, and cover requirements are altered every year. The net result has been very little high quality cover on idled land.

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[1] See p. 707 for the prepared statement and additional material inserted by Mr. Budzik.

A conservation reserve of approximately 30 million acres for a minimum of 10 years should be integrated into all commodity programs. Conservation requirements in crop diversion programs are a source of great frustration and result in minimal benefits. Enforcement of seeding requirements is erratic and management standards are variable. To keep in compliance, farmers are sometimes forced to put seed in the ground at a time when they know it has little chance for success. This fosters disdain for government regulations and weakens the credibility of the programs. All aspects of the Federal farm programs should require conservation seedings and have seeding date requirements that allow for a reasonable chance for success, and those requirements should be enforced.

Contradictory regulations also weaken or destroy many conservation benefits. Several references to wildlife in the wheat and feed grain program are caught in this dichotomy. We read in one section of the program that mowing is to be timed to benefit wildlife, but another section requires that weeds be controlled. Many ASCS personnel interpret this second section as an order to mow everything prior to seed formation. In Ohio, seed formation and the pheasant nesting season coincide. Thus, mowing produces no wildlife benefits. Several ASCS county committees in Ohio interpret a noxious weed as anything that "ain't corn or soybeans."

The simple insertion of noxious prior to weeds and better definition of noxious weed could give us the flexibility we need to increase wildlife benefits. There should be coordination among water quality, forestry and fish and wildlife agencies and other like groups to guard against such actions.

Mr. Chairman, in summation, I would like to say we need a stable long-term Federal farm policy based on sound agronomic principles. Our State has made a long-term commitment, projecting to spend more than $68 million over a 25-year period to reestablish grass/legume cover in Ohio's intensively farmed region.

Mr. Chairman, thank you for the opportunity of being here.

Senator LUGAR. Thank you, Mr. Budzik.

Senator Melcher, do you have questions of the witnesses?

Senator MELCHER. Thank you, Mr. Chairman.

Mr. Ellermeier, on page 5, you mention that in Nebraska between the State and Federal Governments, $2.50 was spent for every ton of soil saved. What about reducing that to $1 per ton of soil?

Mr. ELLERMEIER. May I defer to Mr. Weiss?

Mr. WEISS. I am Daniel Weiss of the Sierra Club.

That dollar per ton of soil saved would be under a 30 million conservation program based on the cost per acre. We estimate we would save about 20 tons per acre of land set aside or converted to another use in the conservation reserve, and the total cost would be—that is how that figure was derived. The analysis was done by our colleague, Mr. Gray, over at the American Farmland Trust.

Senator **Melcher**. That is on the basis if you spend less money for farm program price supports?

Mr. **Weiss**. No; it is because you are targeting your resources at the most highly erodible acres. The problem now is that a lot of money spent on conservation does not necessarily go to the places where the problem is the worst.

Senator **Melcher**. Give me a specific on that.

Mr. **Weiss**. Well, for instance, it was estimated in the 1977 NRI data that fully 44 percent of all lands had no conservation practices on them whatsoever. Some of those lands are the most highly erodible, where they lose at least twice the tolerable soil loss rate. Yet, money, since it is spread out fairly evenly, there has been some targeting done in the last couple of years, but it has not been at all adequate to address the lands that lost 20, 30, 40 tons per acre.

In Nebraska, as Ron mentioned, 1 out of 5 acres loses at least twice the tolerable rate with an average loss of 20 tons per acre. So, by targeting the money into a reserve program to these most severely eroding acres, the Conservation Reserve Program gets a bigger bang for our buck. It is a more cost-effective way than the programs are done now. That is why in Nebraska, because this money is spread out, you end up not saving very much soil at a significant cost per ton saved.

Senator **Melcher**. I just question whether you can reduce 40 percent of what we are spending and get the same result or get more result.

Mr. **Weiss**. I am not saying you have to reduce that 40 percent of what we are spending now, but that we need to target it to the highly erodible acres, which is what the reserve would do, and that is why it is much more cost effective because by idling those lands you drastically reduce that erosion by an average of 18 to 20 tons based on the analysis that we have done.

Senator **Melcher**. Mr. Ellermeier, what are the major loopholes that you see in last year's sodbuster version that you can drive a tractor through, either the House version or the Senate version?

Mr. **Ellermeier**. I guess the grace period, that is too long. There was a time developed in Nebraska in the Sandhills where things all came together just right in history. You could still buy large contiguous tracts of land at a relatively inexpensive price. You could invest in shaving that land down. You could invest in the center for irrigation development for this land and, consequently, there were quite a few larger and smaller corporations that came in, as an example, especially the absentee corporations that invested in this land, broke it out. Some of it is honestly, I can say, being farmed with some real concern for the land. Other, as I mentioned, is just sitting there right now. It has been abandoned because it will not yield enough to make it worth the trouble unless prices are very high and the commodity programs are very good.

Consequently, because of the time that some of these were broke out, the grace period, if it were too long, would not include these lands.

Senator **Melcher**. Principally, then it is the grace period?

Mr. **Ellermeier**. Yes.

Senator **Melcher**. Dr. Jahn, every place you used intensive row cropping. Are you including us in the wheat country where it is not a row crop?

Dr. **Jahn**. The wheat in the total preparation of the soil ultimately is a row crop.

Senator **Melcher**. You do include it?

Dr. **Jahn**. Exactly.

Senator **Melcher**. Thank you, Mr. Chairman.

Senator **Lugar**. Thank you very much, Senator Melcher.

We appreciate very much your testimony this morning. Thank you for coming.

The Chair would like to call now a panel of James L. Lockett, president of the Oklahoma Farm Bureau, Oklahoma City, OK, representing the American Farm Bureau Federation; David Senter, national director of the American Agriculture Movement, Washington, DC; and Herb Edmonds, president of the National Association of Farmer Elected Committeemen, McLouth, KS.

Gentlemen, we welcome you to the table and I would like to call first on Mr. Lockett for his testimony.

STATEMENT OF JAMES L. LOCKETT, PRESIDENT, OKLAHOMA FARM BUREAU, OKLAHOMA CITY, OK, REPRESENTING THE AMERICAN FARM BUREAU FEDERATION

Mr. **Lockett**. Thank you, Senator Lugar and Senator Melcher. It is a pleasure to be here.

I have summarized this and I think now my testimony in full has been submitted.[1]

Senator **Lugar**. It will be made a part of the record and if you could summarize in 5 minutes, we would appreciate it.

Mr. **Lockett**. I am sure I can.

My name is Jim Lockett and I am a rancher in Fairfax, OK. I also serve as president of the Oklahoma Farm Bureau and as a member of the American Farm Bureau Federation's board of directors. I am here today on behalf of the American Farm Bureau Federation.

The American Farm Bureau Federation has been working with other interested groups and the Congress for almost 4 years to adopt some type of a sodbuster bill. Our members were very concerned when the concept originally surfaced that it was simply a backdoor approach to cross compliance, and we continue this opposition. We believe the sodbusting of highly erodible lands is so severe that we have to discourage the practice. We continue to oppose legislation which mandates what a farmer can or cannot do with his land, but we do not believe it is right to plow up highly erodible land and then ask for Government assistance when production fails.

Our sodbuster provision calls for any person who produces an agricultural commodity on newly broken highly erodible land on a field on which such highly erodible land is the predominant class shall be ineligible for assistance for all commodities produced by that person during that crop year.

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[1] See p. 712 for the prepared statement of Mr. Lockett.

Federal assistance denied under our sodbuster approach and the five items where ineligibility for assistance would not apply are listed on page 2 of our testimony, and I shall not read those.

Mr. Chairman, you will note that the Farm Bureau does not use the Soil Conservation Service land capability classification system to define highly erodible lands. When debating the Sodbuster Program, our members strongly stated that this concept should not be used. We are leaving the definition to the discretion of the Secretary, but we hope that before the Congress finishes consideration of the 1985 farm bill, it will take a serious look at the USDA's new system to classify land using the Universal Soil Loss Equation and taking into account wind erosion factors.

The second conservation provision which the Farm Bureau would like to see implemented in the 1985 farm bill is a conservation reserve. Under the reserve program, the Secretary would be required to offer owners and operators of erosion-prone cropland long-term contracts of 7 to 15 years to assist them in conserving the soil.

Under the conservation reserve, the producer's responsibility would be to put into practice a conservation plan approved by the conservation district for converting erosion-prone cropland normally devoted to the production of an agricultural commodity into a less intensive use. Such use could be in the form of pasture, permanent grass or legumes, or trees.

In return, the Secretary would agree to provide technical assistance to carry out the conservation measures; share the cost of carrying out the conservation measures; pay an annual land rental fee on those acres of erosion-prone cropland that are placed in a conservation use. The amount of land rental to be paid for the conservation of erosion-prone land would be based on a priority system of those that will result in the lowest cost to the government when calculated on the basis of several relevant factors. Payments for the land rental fee may be made in cash or in commodities.

I appreciate the opportunity to testify here.

Senator LUGAR. Thank you very much, Mr. Lockett.

Mr. Senter.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT

Mr. SENTER. Thank you, Mr. Chairman.

I am David Senter, national director of the American Agriculture Movement.[1] We appreciate the opportunity to appear before this committee today to speak about conservation.

Our organization is standing with most of the other organizations and groups representing a whole host of interests to help see that we get adequate soil conservation in the 1985 farm bill. Erosion of our Nation's farms have been caused by bad agriculture policies of past years. In recent times, this policy has removed the farmer's ability to make a profit; therefore, soil and water conservation suffered drastically.

Today we are seeing worse erosion than even during the Dust Bowl days of the thirties. Each day, 26 square miles of our best topsoil is blowing or washing away. We are seeing 2,100 acres of grassland plowed out each day that we delay action on sodbuster legislation.

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[1] See p. 714 for the prepared statement of Mr. Senter.

But the bottom line is that good soil conservation practices, whatever they are, can only be paid for with profits made off of the farm or through Government programs. There is nothing that hurts a farmer worse than to see his farm destroyed by erosion and stand helplessly by while it happens. Yet we are very disturbed with the reaction of the administration to the problem in calling for the phaseout of the Soil Conservation Service. Our organization opposes that reaction and are willing to do what we have to do to see that the Soil Conservation Service remains and that we strengthen our conservation program and the Soil Conservation Service.

The American Agriculture Movement recommends that we expand the programs to targeted projects, that we establish a 5-year and 10-year conservation reserve to remove highly erodible land from production, and that we continue to pursue sodbuster legislation to deny farm program benefits to operators that plow new lands. We also believe that the benefits should be denied to all of the operators' production and the AAM also encourages that sanctions be transferred with ownership of the land to prevent corporations from merely selling out to another corporation to get through a loophole in the law.

Mr. Chairman, we appreciate the opportunity to appear and we will be glad to answer any questions.

Senator **Lugar**. Thank you very much, Mr. Senter.

Mr. Edmonds, you are next.

STATEMENT OF HERB EDMONDS, PRESIDENT, NATIONAL ASSOCIATION OF FARMER ELECTED COMMITTEEMEN, McLOUTH, KS

Mr. **Edmonds**. Thank you, Senator Lugar and Senator Melcher, for the opportunity to testify here before you this morning.

I am Herb Edmonds, president of the National Association of Farmer Elected Committeemen, commonly called NAFEC. I have a livestock and small grain farm in northeast Kansas.

We would request that our full statement be made a part of the record.[1]

Senator **Lugar**. So ordered.

Mr. **Edmonds**. We will summarize parts of it because our statement addresses farm legislation as well as ACP.

Our membership is composed of primarily present and past county committeemen and community committeemen, office personnel, and friends, all of whom have at one time or another represented ASCS, administering farm programs on the local level. Our organization's 20-year history has somewhat of an enviable record. Seventy-five percent, approximately 75 percent of our resolutions have been adopted at our annual meetings, have been adopted, be they by law or by administrative change.

NAFEC reaffirms our desire and ability to administer all farm programs as well as any new program that might come down and, at the same time, we feel that we can hold the administrative costs down without duplication of efforts.

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[1] See p. 715 for the prepared statement of Mr. Edmonds.

The farmers of our Nation began to suffer some 10, 11 years ago, because 9 of the last 11 years the net farm income has been less than it was the previous year. It has declined to a total of 30 percent less than it was at its peak. At the same time, our costs have climbed 240 percent. The gross value of our crop has only increased by 2 percent.

Any new farm legislation, we feel, should incorporate supply management along with mandatory goals, and we feel that loan and support rates should reflect the real costs of production.

We also think there needs to be a concerted effort to address the sale of our commodities overseas. NAFEC supports the normal crop base acres with a 20-percent annual adjustment for flexibility provisions for the farmer to adjust his farming practices.

We feel that food should never be used as a weapon, and particularly as it has been in recent years.

NAFEC supports the grain reserve, as it provides a market insulation. It reduces expensive storage cost, compared to commercial, by as much as probably a third less. It provides a well dispersed food supply in the event of a national emergency or disaster. It provides a vehicle for farm storage facilities.

NAFEC firmly believes the Federal Crop Insurance Program would be better accepted by the farmer, better delivered, and better service to the farmer, and better administered if ASCS were assigned the administration of this program.

With an ever-increasing population, and a decreasing amount of prime farmland in this Nation, one of the greatest concerns of this committee is obviously the protection of our soil and water resources. $500 million was authorized by Congress in 1936 for the Agricultural Conservation Program.

Economists tell us that $30 billion would be required today to equalize the value of $500 million in 1936. This program has been allowed to deteriorate in recent years, where we were lucky, or felt lucky to get $190 million. The program has perhaps been misunderstood. The benefactor of the program is the consumer, the one who has become accustomed to a steady, reliable, and nutritional supply of food—I will hurry—and that food supply is very well in jeopardy, and the situation could become very critical very quickly.

What we think we need is a long-term land retirement, very much as has been thoroughly discussed here. We need no further payment limitations on commodity programs, and we need to expand the amount of participation that the local farmer can have from $3,500 up to $5,000 per farm.

One thing that we need to bear in mind as we consider various ACP programs is the disproportionate distribution of population. This has to become, and be continued a Federal program because of this population distribution.

The success of ACP certainly is not totally because ASCS has administered it so well. It is in part due to the quality of technical assistance offered by the Soil Conservation Service, and their continued support is necessary. We need to continue to develop that Agency.

Thank you for the opportunity to appear before you, and I will be happy to answer any questions.

Senator LUGAR. Thank you very much, Mr. Edmonds.

Senator Melcher, do you have questions of the witnesses?

Senator MELCHER. Just very briefly.

Where is Fairfax, OK?

Mr. LOCKETT. North-central Oklahoma.

Senator MELCHER. What is the size of your farm?

Mr. LOCKETT. I have got about 400 acres, and I run about 400 mother cows.

Senator MELCHER. In the conservation reserve, are you going to operate with either hay or grazing?

Mr. LOCKETT. No, sir. My entire ranch is pasture, and I do graze. It is native grass.

Senator MELCHER. If you get into the conservation reserve, would you——

Mr. LOCKETT. I would not be eligible.

Senator MELCHER. You would not be eligible?

Mr. LOCKETT. No, sir.

Senator MELCHER. Would you get into it?

Mr. LOCKETT. Were I a farmer and eligible?

Senator MELCHER. Would you, as an individual, go for the conservation reserve contract?

Mr. LOCKETT. Well, of course, it would depend on the particulars as written. I think they could be written finer than this. But my interest, I guess, would be in the conversation, the long-term conservation of the natural resources of this entire Nation.

Senator MELCHER. Are you entirely cattle, and no crop?

Mr. LOCKETT. Yes, sir.

Senator MELCHER. No crop?

Mr. LOCKETT. No. I mow a little pasture to get some hay off of it, but I keep it fenced off, and I do not graze that part.

Senator MELCHER. You are stressing that ACP does not work when you do not have any money, so there is no cost sharing.

Mr. SENTER. That is right, Senator.

Senator MELCHER. Would the conservation reserve be attractive because of that?

Mr. SENTER. Yes, the conservation reserve would be attractive because of that, and by having a long-range program that would allow a lot of operators to make some good management decisions, and it is a program where they could see what exists, for 5 or 10 years, instead of changing yearly, and I think that we would see a lot of participation, as well as take a major step forward in our effort to stop erosion.

Senator MELCHER. Well, I believe that might be true. I believe that myself.

Mr. Edmonds, I am not sure where you come from.

Mr. EDMONDS. McLouth, KS. That is in the eastern part of Kansas, just west of Kansas City, about 40 miles.

Senator MELCHER. If we tried to estimate how much that is worth, I guess it would be a pretty big chunk counting the time you people donated.

Mr. EDMONDS. Yes, sir, you did indeed use the correct language. We are donating our time. We are not here on an expense account.

Senator MELCHER. And you are not home on an expense account, or do they give you a little bit of something?

Mr. EDMONDS. If our treasury will do it, we will take a room. My wife is my subsidy. She is at home teaching school.

Senator MELCHER. Is the association saying we ought to have a 20-percent set-aside, a portion paid, or otherwise a conservation reserve?

Mr. EDMONDS. Yes, sir.

Senator MELCHER. Do you think the conservation reserve would save as much as the American Farmland Trust says it would?

Mr. EDMONDS. We do not have the staff, nor the figures to put that together, but let me go back and relate from one—I am one, who with my father, joined into the Conservation Soil Bank Reserve Program years ago. We farm quite intensively on most of our land, and when I was in high school we did it mostly to wheat. Dad was a conservationist at heart, and that land was terraced, but nonetheless we put it all in the soil bank, and when we broke it out, we broke out only those portions that were more productive and best protected. I think that is a good example of the integrity of the farming community, because I know of others who did the same thing.

Senator MELCHER. Did we appropriate $190 million last year for ACP? It seems to me it was a little bit less.

Mr. EDMONDS. By the time you got the administrative costs out, and other things, we get considerably less.

Senator MELCHER. What does the association say to going for both ACP, of about $190 million, and the conservation reserve, whatever it happens to be?

Mr. EDMONDS. That would certainly be acceptable.

Senator MELCHER. The Farmland Trust would have us believe we would save a little money.

Mr. EDMONDS. I think that is true. There is one point that almost seemed to be a sacred cow in this conservation, and because perhaps I am on the production end of this, it may be a little more sensitive to me, but since I have been farming, and I started out in the middle fifties, it seems to me that the efficiency of the production of the farm chain out there has been absorbed by the consumer, and primarily for the consumer, for cheaper food.

I do not have the figures in front of me. The thought just occurred to me, as I listened to the testimony and the answers, but I suspect that if we were to go back over the last 30 years, that we would find that the percentage of the consumers' income that was spent on food has dropped materially, and that has primarily been at the expense of the farmer.

Senator MELCHER. It has dropped. I am glad you said it.

Mr. EDMONDS. I guess the answer to your question earlier is this, the consumer is simply going to have to pay more money, either in the form of a subsidy to the farmer, in helping build the practices on the land, or in the form of some kind of, well, target price, deficiency payment, I do not care what you call it.

Senator MELCHER. You are right.

Thank you very much.

Thank you, Mr. Chairman.

Senator **Lugar**. Thank you very much, Senator Melcher, and thank you, gentlemen, for coming in this morning.

This hearing is recessed.

[Whereupon, at 12 noon, the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Senator **Lugar**. This hearing of the Senate Committee on Agriculture is now called to order.

This afternoon the committee will hear witnesses on the research aspect of general farm legislation.

Our first panel I would like to call at this point is Dr. Bernard J. Liska, Purdue University, president of the Institute of Food Technologists, and Peggy Wheeler, public affairs director of the National Center for Appropriate Technology, Washington, DC.

Dean Liska and Ms. Wheeler, would you come and occupy these seats.

We are delighted that you are here this afternoon for this testimony. As has been the custom of the committee during the hearings on the agriculture bill, we have asked each witness to prepare testimony, which you have—and that will be made a part of the record in full—and then to please summarize in 5 minutes the highlights of the testimony. We would submit questions from Senators at that point.

I would like to ask you to testify in the order I announced.

I would call upon Dr. Liska.

STATEMENT OF BERNARD J. LISKA, PURDUE UNIVERSITY, PRESIDENT, INSTITUTE OF FOOD TECHNOLOGISTS, CHICAGO, IL

Dr. **Liska**. Senator Lugar, thank you for inviting me. I am Bernard Liska, dean of agriculture at Purdue University, and also serve as the current president of the Institute of Food Technologists, a professional scientific society of 22,000 members.[1]

I appreciate this opportunity to share with you today the deep concerns of the Nation's food scientists and technologists about the deteriorating status of food science, also identified as value-added or post-harvest technology research in this country. Thus my comments relate to long-range research needs.

Food technology and science research directly relates to the health and well-being of all the people of this country, the financial well-being of the country, the severely depressed state of the farm economy, jobs, and balance of trade.

All of these factors are related to the viability and competitiveness of the U.S. food industry, and the utilization of agricultural products from our farms.

The U.S. food industry is losing its competitive edge. Some authorities believe the food industry can go the way of the automobile and steel industries unless careful attention is given to it.

Here are a few examples of our concern.

High fructose corn syrup developed in the United States was commercialized by the Japanese and licensed back to us. Supercritical CO_2 extraction as used in decaffeinated coffee was developed in Europe. Robotics—Japan and the French are well ahead of us. Aseptic packaging, as used in shelf-stable dairy products and fruit juices—and there are dozens of others that we have imported and are utilizing because of the lack of research support over time.

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[1] See p. 716 for the prepared statement of Dr. Liska.

The Institute of Food Technologists 6 years ago began examining why foreign technologies and manufacturers were making such inroads into markets that had been American. We formed a committee to attempt to discern what had happened to our food science and technology enterprise.

It rapidly became clear that we had not kept pace with the aggressive research and development being carried out in other countries. It also became obvious that the Japanese and many European manufacturers were in some cases seizing American inventions, developing them, and licensing them back to American food companies at higher cost than if we had done this ourselves.

We determined that current U.S. research efforts in food science are grossly inadequate, acutely mission-oriented and generally short-range. For example, the food industry spends only three-fourths of 1 percent of sales on research, some of this because of the low-margin area and also much of it is used in defensive research because of regulations.

This compares with 6.7 percent for drugs, 4.3 percent for electronics, and 3 percent for chemicals.

Clearly, we need to strengthen the scientific base for America's food industry and strive to reestablish competitive leadership of this country.

Against this background, the Institute of Food Technologists conducted a workshop this last fall to determine what kinds of research are required to restore the U.S. industry's competitive edge. More than 800 nominations from industry, academia, and the Government were made, and of this 175 leaders gathered to contribute their insights and perception as to what research is required over the next two decades. Never before has such a group been convened to determine the research needs of the food-processing industry in an intense workshop of 3 days.

The recommendations comprise a list of more than 40 major research trusts in seven areas. These areas are: food-preservation processing, automation, biotechnology, diet and health, food safety, environmental issues, and human resource personnel needs.

I will not go into detail on each of these seven areas, because the detail is included in the written testimony.

In summary, the participants called for research aimed at use of biotechnology sensors and robotics to improve food-processing systems, improved understanding of the physical, chemical, and biological properties of food-related materials, greater understanding of biological activity to improve food safety and increase environmental protection, better analytical methods that could lead to continuous automated and less expensive food processing, more relevant data to health, nutrition, and food safety, both chemical and microbial, attracting more high-quality scientists and engineers to government, industry, and academic programs in food sciences and technology.

Based on the workshop results, I have to request the committee and the Congress to consider the following recommendations.

Encourage the USDA, and within it the Agricultural Research Service and the Cooperative State Research Service, to reemphasize postharvest technology, food science, and technology research, recognizing that to do so is to help American farmers sell their products.

Separate food science and technology within ARS and CSRS from marketing economics research. Considering them together clouds the issue.

Encourage the USDA to include food scientists and technologists on its Joint Council on Food and Agricultural Sciences. Presently, there is one. Its fiscal year 1986 "Priorities for Research, Extension and Higher Education" reflects this lack: Not one of its top nine priorities even recognizes food science or food processing or postharvest technology.

Encourage and support review of food regulations to bring them up to date with the aim of freeing producers and corporate researchers to advance science and technology, not to defend themselves against outmoded regulatory constraints.

Ensure that the Departments of Health and Human Services and of Agriculture recognize and incorporate active roles for food scientists in their nutrition programs.

Recognize the need for scientifically trained food scientists by refusing to cut educational funding and training grants.

Recommend that the USDA integrate value-added research into the Competitive Grants Program, recognizing that such research augments the expected returns from biotechnology and other R&D efforts.

In the farm bill and other pertinent legislation, recognize the key role of food science and technology and the critical need for improved research and development, especially authorizing increased R&D funding earmarked for food science and technology by $50 million in 1986, $150 million by 1987, and $250 million for each succeeding year.

Food science and technology research leads to improved nutrition and health, which in turn can lead to lower medical costs. Investment in this research will also lead to greater value-added processing of products from American farms, thus improving the overall farm economy and our critical balance of trade.

Thank you. I will be glad to answer questions.

Senator LUGAR. Thank you very much, Dr. Liska. I would like to call now upon Ms. Wheeler for her testimony.

STATEMENT OF PEGGY WHEELER, PUBLIC AFFAIRS DIRECTOR, NATIONAL CENTER FOR APPROPRIATE TECHNOLOGY

Ms. WHEELER. My testimony is a little bit too lengthy, so I will just say what I came here to say.[1]

I am Peggy Wheeler, I work for NCAT, which is the National Center for Appropriate Technology. NCAT is a technology transfer organization, and we handle services for Federal, State, and local governments primarily in renewable energy and energy conservation.

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[1] See p. 724 for the prepared statement of Ms. Wheeler.

This work led us to the reason that I am here today, and that is concerning resource management, research needs, and technology transfer needs in the rural resource management area—soil, water, energy, and land management.

And what we see as a need is, first of all, a much heavier research agenda, mainly centering within two experiment stations devoted to the area of research in these issues—water, soil, et cetera. Then we feel a strong need for a technology transfer center which would operate on a toll-free-line basis and would establish what has heretofore not been established, and that would be an international and national data base.

The reason that we feel that this center is needed—before you is a copy of a fact sheet, which is quite large. In this fact sheet you have before you, there are four columns. Column 1 identifies the problem such as water supply. What is the problem there? The problem is one of acutely diminishing water supplies in certain areas of the country. We have identified four major problem areas: Water supply, ground water pollution, land management and energy costs. These problems are leading to extremely high costs either on the farm or in rural communities.

We have tried to identify what those costs are in column 2, to identify what the technologies are which, if used properly, would reduce the cost in column 3, and the final column is exactly what cost reductions you would thereby attain.

So, ATTRA—what we are calling this center is Appropriate Technology Transfer for Rural Areas—would work in such a way that you would be transferring these very cost-reducing technologies to farmers or to rural communities, so you could begin to cut the input and operating costs that they are presently experiencing.

We feel that this is extremely necessary because currently, even though extension works very hard in these areas, and so does CSRS and ARS, they first of all do not have, except for one data base which is a literature scan—a data base which is an international-national one—outside of the ARS and SAES agricultural research, that is performed.

So if DOE or DOI, et cetera, are performing research and have developed technologies that impact these resource areas, the extension agents usually cannot directly access information on those technologies through their data base systems.

So, for one, we see a real need to establish a data base that gets into what technology development that Europe, Japan, and others have done in these areas, plus all the private and other public research institutions, in addition to the USDA and SAES.

And so that would be the data base part; the other side would be the actual technology transfer, which would be operated through a toll-free line. By this method you would be able to open it up so that you would have specialists working directly with farmers or directly with rural communities in the transfer of irrigation technology—if a farmer is having problems with an irrigation system and wants to attain better water efficiency—to a banker who wants to make a loan on a technology he knows nothing about, and he needs better information, et cetera.

We feel that the two benefits out of this are: The one we have mentioned, which is the input cost reductions on farm and in communities, costs which we have heavily substantiated running into the millions and billions of dollars, depending on the problem; and the other being the beneficial impact on the very problems of diminishing water supply and water pollution soil erosion, land management problems and energy costs.

So, we feel by working the two ends, you can achieve both sides.

We have in our testimony included the language which would achieve such goals, our recommended language to the farm bill, and the cost of what we are talking about for the research side, the two experiment stations, and for some ag policy research is $7 million, and the cost for the technology transfer center I have talked about would be $3 million.

So, that is the cost, a total of $10 million for the language that we are recommending, and those are the problems we would deal with.

Senator LUGAR. Thank you very much, Ms. Wheeler.

Dr. Liska, what figures could you supply for the record in terms of recommendations as to what we ought to be doing in this bill to enhance the general situation you are presenting?

Dr. LISKA. Is that something we could do in written form later? [1]

Senator LUGAR. Yes; that would be fine, if you would submit for the record your considered recommendations of expenditure levels.

Let me ask a question that may lead you to expand in a way that you could not under the constraints of the 5-minute time limit. In the research efforts that were outlined in your testimony, trace, if you can, for the committee ways in which this might help farm producers. An ordinary farmer coming before us, looking for additional income and markets, might say, after all, there seems to be an abundance of agricultural stock, but what essentially your proposal calls for is more ingenious ways of making these resources maybe nutritionally more valuable to consumers, or more interesting in an esthetic way for consumers.

But how is this going to help production or the using of those foodstuffs that are produced?

Dr. LISKA. When Ag products are produced—we do one of three things with them: We ship them overseas, use them ourselves, or put them in storage.

What we are talking about really is to find new uses for agricultural products. I think a good example is new foods that might come out or new uses for present products—I mean, Church's Chickens is now using catfish, and they are using about all the catfish that has been produced in the South as a result of this—it's a new use for an older product.

Also, I think from a nutritional point, we really have concentrated a lot of research on the production side and on the nutrition side, and the food science processing is the area that really connects those two. I think eventually we are going to have to face up that we cannot really correct all of our problems with what we eat by corrective medicine; we are going to have to get more interested in preventive medicine and diet, consumption of the right foods nutritionally—and really it's a combination of some of the right kinds of products. A good example, I think, a combination of fats—animal fat and fat from the plant side into a product that has the flavor and the credibility and all the desirable things from a nutritional point of view.

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[1] See p. 309.

We really need to have a better idea of food ingredients, how we utilize these in the human body, and how these can be combined in foods that will be accepted by consumers, that will be more nutritionally sound.

Senator LUGAR. Indeed, you have presented even the possibility of preventive medicine as part of the value of this. It would be not only a production-consumption situation, but, as you say, a connecting link.

Dr. LISKA. I think it can be, between the production side and the value-added, it would be interesting if we could develop value-added products that could be exported, because when we submit exports that are essentially raw agricultural products, we are really exporting jobs overseas that we might retain here. Ship over value-added products, and add those dollars to our economy.

Senator LUGAR. Your suggestion that other countries have adapted our technology and thus our jobs—it comes back to that point.

Dr. LISKA. One area that is being looked into that I think is very critical is much of our equipment used in the food industry for processing and packaging really is being developed in overseas countries, and this I think is something that we just could not put the dollars in the technology, in low-margin kinds of areas like this. So that in some respects that is a very critical area.

Senator LUGAR. Now, if the Federal Government, in behalf of American taxpayers, is to make investments in these types of research opportunities, what facilities should be utilized, or what criteria should we use in determining where the money ought to be spent, even if we determine an overall level of effort that is possible in a budgetary sense?

Dr. LISKA. I think a good place to put it would be in the competitive area—start out with an addition to the competitive grants program in USDA as a starter.

Senator LUGAR. That's the marginal place that you experience.

Ms. Wheeler, let me ask: Is the work that you are suggesting here already being done by others? Could you differentiate the type of institute work that you believe that differentiates your proposal asking for the $7 million; for example, from work that might be occurring at land-grant universities or at commercial laboratories, or others who are similarly engaged.

Ms. WHEELER. First of all, the answer is yes, it's being done to a degree. Various land-grant universities work along this line. Usually, when it's a land-grant university, a State experiment station, or even the ARS, primarily each State works on their own State, first of all. So they often—there are a number of States that are renowned for handling this type of thing within State. Where we feel this would be of strong assistance—and we have had conversations with ARS and CSRS and the Extension Service to see how they felt about such a program and its needs—is that there is no one currently within the Federal Government there may be businesses that work in any given area collecting data on resource management technologies, not only from the State land-grant universities, but from all the other agencies, the work private institutions are doing, plus what international levels are doing—and putting that in one data base, in layman's language, that the Extension Service and others could access directly, if it was so set up. For one, that is not being done, nor is a tech transfer system, as I have described, where you could actually, on these specific technologies get instant help, working out the engineering problems or the management problems, accessing whatever technology is best. So, if you call the State ag experiment station and land grant, you would get what they could find, either from their own direct information, which can sometimes be very extensive, or what they would access through the literature scans of the National Ag Library. They support our position that what we are describing here just plain isn't there. So, that if Europe or if private institutions have developed technologies—or one of the examples we think is a good one is that the Department of the Interior has done a great amount of work in the water supply area and has developed many technologies to or paid for the development of many technologies that lead to water efficiency.

If you called your land-grant university, you would not necessarily get the access to that technological information unless they happen to have personally called New Mexico or whatever. It would be a happenstance sort of situation.

This system puts it all in one place and moves it out.

Senator Lugar. Why would land-grant universities or foreign entities be willing to cooperate with this project? What would compel them to send all this information to your organization or to your colleagues?

Ms. Wheeler. Well, probably for two reasons. One, first of all, and I base this on the work NCAT already performs in developing data bases on an international level—we have never run into anything except strong support when we want to extend information on one of their products; they are happy to have us knowing more about what they are doing, probably because it helps provide markets, et cetera, for what they have developed in the way of services and products.

But also there is a tendency—we have been speaking with a couple of international organizations; they feel it would be useful if they could also access the data base to learn what we have done, because we have, in some of these resources areas, a great deal of technological development which they can't readily get their hands on.

So it would work both ways.

Senator Lugar. People don't want to shield any of this or keep it secure in a proprietary way?

Ms. Wheeler. We have not encountered that, no.

Senator Lugar. Senator Heflin has joined us. Perhaps you have questions of these witnesses.

Senator Heflin. I have first a question on behalf of Senator Zorinsky.

Ms. Wheeler, farmers tell me that agricultural research should be directed towards reducing the cost of production. You propose to establish a Center for Appropriate Technology Transfer for Rural Areas.

Can ATTRA help farmers reduce their production costs? If so, how? What costs could be reduced?

Ms. WHEELER. We have been—first of all, right to your left, under your elbow, is a fact sheet which we hope will begin to answer that problem. What it outlines are the given areas where we feel farmers, through the transfer and use of such technologies that we are naming, could cut costs. The far-right column is a list—and I stress this is only a beginning list; we have been working hard for 3 months calling counties, calling farmers, trying to pinpoint it as specifically as possible what the costs are that we are truly talking about.

In each of the areas we are finding numerous costs. Farmers could apply various technologies either such as those farmers experiencing the problems of the Ogallala Aquifer—their irrigation costs are jumping as the water supply is diminishing. In some areas it jumped from $1 an acre-foot up to $61 an acre-foot.

Through the use of better irrigation technology, they could cut these savings 30 to 80 percent, which is one example.

The problems of soil erosion and ground water pollution and energy management—energy on farms is still, even though it is not as much of a national problem any more, to the farmer, they have found that through the use of energy-conserving technologies they can cut their costs of energy 30 to 60 percent per acre.

So it's these types of technology that are listed here.

Senator HEFLIN. Would the Center's activity compete with or complement the activities of the Cooperative Extension Service?

Ms. WHEELER. The way we are recommending it be structured, it would completely complement.

Senator HEFLIN. In the South, to some people's amazement, we do have problems that could be cured with irrigation—I think out of the last 6 years we have had 2 drought years which have had a disastrous effect upon crops. Since at least certain sections of the south have gone into double cropping, primarily the second crop being soybeans—it is late planted and runs into a dry season, which has had an effect upon its yield—the dry season usually being from August 15 on through to October 15. I just wondered if you have any thoughts on what type of an economical irrigation project might be designed to try to assist with these problems?

I realize the drought years are no different from other drought years. I suppose I am directing it toward that drought period, which is good cotton, because you want a dry season for cotton during those months of August 15 to October 15. But, at the same time, if you have some type of an irrigation approach, it could substantially help in the production of soybeans. It's a question, of course, of money—whether or not there are some thoughts that through certain cooperative efforts, or otherwise, that some form of irrigation might be used.

Do you have any thoughts about this that you would like to tell us?

Ms. WHEELER. Two things come to mind—and I am not an irrigation engineer, by any means—my assistant, Deb Jones, one of our technical specialists, might be able to add to my comments—but there are two things that come to mind right away in the lines of irrigation and water efficiency management. Another thing that we are looking into more and feel is an area that could be stressed heavily, and that is the actual management of your water supplies that may be on the farm, your holding system, so you lose as little as possible through evaporation. There is better and better technology in that.

They even stress that through proper lining and piping you can lose less water. So there is that management but when you are in a drought area or expected drought, there is a different technique to water management and irrigation, so you water at certain times expecting a drought, and if you do it properly you can actually strengthen the plant so that when the drought comes it is not as impacted.

It is a variety of mechanisms which together can have a strong savings for the farmer.

Senator HEFLIN. In irrigation as a whole, is there much use of computers to monitor evaporation. I understand in some countries that they are applying computers relative to irrigation. How advanced is technology such as the use of computers with irrigation now?

Ms. JONES. I think the use of computers in irrigation scheduling is becoming more and more prevalent as the need to save water becomes obvious. Also people are discovering it's not necessarily how much water you apply but rather when you apply it is what is critical. There has been a lot of research done, for example, in Nebraska; the Extension Service has been very active out there in looking at how farmers can reduce their water supplies, but still maintain high yields. They have had hundreds of farmers participate in irrigation projects, and have shown that the yield does not depend on how much irrigation water they apply, if they apply it when the crop needs it.

So with irrigation water it is definitely timing that makes the difference.

And with computers, they are using them now to schedule when irrigation water is needed, using moisture detection devices, which helps to indicate when the water should be applied so as to avoid waste.

Senator HEFLIN. That's all, Mr. Chairman.

Senator LUGAR. Thank you, Senator Heflin. Dr. Liska, why have private American businesses not invested more money in food-processing machinery? You pointed out in your testimony that startling changes have occurred in the Japanese economy, and that food equipment is being exported by the Japanese, perhaps by others, and the chart which you show shows a dramatic increase in those exports as opposed to our own exports to other countries.

Granted that the Federal Government may have a role in all of this, are there not large American corporations presently who are for various reasons simply failing to devote proper resources to increase their competitive ability?

Dr. LISKA. Well, I think one thing, this is a reasonably low-margin industry. It's probably described best by a year ago I ran into an Italian who worked for a firm who does this kind of machinery production. He said he was pleased to see the American industry moving out into high tech and other things where the returns were higher, because they were very satisfied with the lower margin with a very steady kind of business. That may be one explanation for it. They moved into many other areas. Plus I think our foreign companies have decided that this is a good steady kind of business that they are going to be into it. Much of our packaging and processing equipment is foreign, as it is in many other besides food, in many other areas—high-speed packaging—to a great extent is foreign equipment.

Senator Lugar. Just for the sake of argument, the expenditure of Federal moneys in research, how would that cure that problem?

Dr. Liska. Well, I think it's a matter of spending money and developing—technology as we look ahead, we obviously need aseptic packaging and other new techniques to preserve foods and obtain nutrients and ensure their safety and so on, and at lower energy costs aseptic is one approach to that, because you sterilize the food outside of the container and then package it.

I think we need to look at some basic engineering and scientific principles that are involved and develop these new technologies. Hopefully those will be picked up by our people here. If they are developed in the foreign countries by the competition that is working in this area now, we obviously won't do that. We are really losing jobs to other countries in this approach.

Senator Lugar. In the tables that you presented on R&D expenditures of selected U.S. industries, you pointed out that—and you have figures for 1980 and for 1983 and 1984—the more recent ones, 1983 and 1984, show that as a percentage of sales the industry averaged about 2.8 percent for R&D, whereas in the food industry it was 0.8 percent. One reason, as you pointed out, may be the smaller margins in food, but the industry averaged about 33⅓ percent profits, whereas in the food industry it was about 10.8 percent of profit.

This once again would tend to suggest that this is an industry that is simply not devoting the same proportion—in this case a rather startling difference.

Dr. Liska. Well, we have two things going on. One, most of our basic processing is a very narrow margin, and also we have a lot of the—the research that is being done in the food industry is being done by a reasonably small number of large companies. We have a lot of small food companies that are just not set up, do not have the resources to do a great deal of expenditure on research and development. They still depend on the public system through the State and Federal research system for the kind of information they need.

So it's an area that I think we have a choice to make. Are we going to try to develop that by the investment of public funds? I think if you look at this as a means to get at the value-added economic issue and possibly the health issue, it looks like a good investment of public funds.

Senator Lugar. The Institute of Food Technologists, of which you are president, obviously is committed to doing more here, but you have an overall strategy or at least a concept of how the work you are doing might pay off in these ways?

Dr. **Liska**. Well, the first thing we did was get scientists from the universities and industry and Government sector to sit down for a period of time and take a look at the problem and project what is needed. They will be coming out with a report on the workshop that was held in November, and at that point then at least the industry and the university and the Government people will have one pattern to follow as a design for what is needed in the future.

We have not had that to date. This is our first conversation relative to that kind of general concern, which was a step, to get our scientists in the three areas talking together, because industry needs to get involved with this, and I think will. There are signs that they are getting interested in pursuing the kind of program we are talking about.

Senator **Lugar**. Senator Heflin, do you have any further questions?

We thank you for coming very much, Ms. Wheeler, Dr. Liska.

[The following information from Dr. Liska was subsequently received by the committee:]

May 1, 1985.

Senator Richard Lugar,
Committee on Agriculture, Nutrition, and Forestry, Senate, Washington, DC.

Dear Senator Lugar: Thank you for the opportunity to present the research recommendations of the Institute of Food Technologists to your committee on April 15. This letter is to respond further to some of the questions you raised on that date.

One of the purposes of the workshop on research needs which IFT conducted last November was to integrate the views of a comprehensive spectrum of food scientists to the research which would most benefit this country over the next two decades. This was carried out at the workshop itself, and in subsequent meetings of the Committee on Research Needs of IFT. As such, this work represents an overall strategy for basic and applied food science research. Beyond this, IFT plans to continue the process of interaction between academic, industry, and government scientists to refine strategy as objectives are met and as new needs of opportunities are perceived.

As with all such research, it is not possible to predict in which food or commodity area achievements might be made. The only certainty is that gains made through such research will help farmers market their products, both here and abroad. Two examples of the fruits of past research may help to show how this can occur. Farm production of soy products has expanded considerably in the past several decades as a result, in large part, of such research. High protein products from vegetable sources are increasingly marketed as both human and animal foods, and development on human foods continues. The other such examples was mentioned in my written testimony: high fructose corn syrup. As I noted, this was a direct result of food science research, conducted in this country in the 1950's. There is now as increased risk for American agriculture and food firms, as this technology has been *developed* overseas and licensed back to U.S. companies. The market for this product, in soft drinks and processed foods, has expanded remarkably in recent years.

Using the increased scientific sophistication we have now developed and building upon this with appropriate increases in food science research support, we can reasonably expect similar development which will open markets for the produce of our nation's farms.

Within this context, we would direct the increased scientific endeavor made possible through a $10 million increase in competitive grants toward those science and food engineering activities which promise increased benefits for farmers and food processors. Our 175 workshop participants directed their attention along two parallel but complementary paths: near-term productivity advances and longer-term scientific discovery.

Most appropriately, the grants should go toward developing the latter capability. Our nearterm adversity arises out of both a lagging value-added technology as much as overproduction of certain commodities at home. Therefore, the criteria for directing such grant money would rest first upon those sciences which, because of the state of their development, are most likely to be transferable to increased food value or nutritional quality. Specifically, this would include the results of biotechnology research, and human nutrition research. Second, the grants would materially assist to provide more extensive scientific backgrounding for both graduate students and faculty to bring them current with such evolving technologies. Third, they would be concentrated on those product and commodity areas (like corn and dairy products) which now represent both a farm policy problem as well as a market opportunity.

We believe the result of bringing these eminent food scientists together for the first time has initiated a process which will continue to serve as a policy guide for such research for decades to come. It developed the groundwork for strategy and specific criteria for selection.

Finally, you inquired about the low ratio of investment in R&D to profit among food companies relative to other industries. As my testimony points out, food companies are unique in this regard in several respects. Most research is done by the larger firms (as in most fields); small companies simply cannot afford to carry out development, not to mention more basic research. Also, I pointed out that the food industry is a notoriously low margin business; it is highly competitive (both domestically and internationally). Finally, and most amenable to policy adjustment, the food industry is heavily burdened with various regulations which require that research and development funds be spent to meet those laws and rules. These include food safety, labelling, packaging, industrial practice, testing, and certification. The point we make in our testimony is many of these regulations are outdated, and should be either repealed of modified to reflect the current state of scientific capability. Finally, increased investment in food R&D and greater support from federal research funding can substantially assist both processes—developing better, safer products and ensuring more efficient regulatory procedures and rules.

Again, I thank you for the opportunity to present the views of this scientific society. Please do not hesitate to contact me (or Mr. Charles Wixom at IFT headquarters in Chicago) if you have further questions.

Sincerely yours,

DR. BERNARD J. LISKA,
President—IFT.

Senator LUGAR. The Chair would like to call now a second panel this afternoon composed of Dr. William Flatt, dean, College of Agriculture, University of Georgia at Athens, and he will be accompanied by two associates, who have short oral statements I understand they would like to present; also John Shields, manager of the Tennessee Valley Authority Office of Agriculture and Chemical Development at Muscle Shoals, AL; and Ms. Jane Schenck, education director, Pellon Co. Limited Partnership in New York, NY, on behalf of the American Home Sewing Association; and Dr. Robroy Fisher, chairman, Special Government-Industry Research Committee, National Cotton Council of America.

We are delighted to have each of you here this afternoon, and we would like to proceed with the testimony first of all of Dr. Flatt and his two associates, and then after that Dr. Shields.

STATEMENT OF WILLIAM FLATT, DEAN OF THE COLLEGE OF AGRICULTURE, UNIVERSITY OF GEORGIA, ACCOMPANIED BY RODNEY FOIL AND JOHN WOESTE

Dr. FLATT. Thank you, Mr. Chairman, my name is William P. Flatt, dean of the College of Agriculture at the University of Georgia.[1] I am chairman of the NASULGC Title XIV Taskforce. It is a pleasure to appear before you today on behalf of the Division of Agriculture of the National Association of State Universities and Land-Grant Colleges to discuss the research, extension and teaching provisions of the 1985 bill.

Today I am joined by the following representatives of the title XIV task force: Dr. Rodney Foil, to my left, the representative of experiment stations; Dr. John Woeste from extension; in addition we also have Dr. Donald Hegwood from resident instruction; Dr. Sidney Evans, 1890 research; Dr. Gilbert Tampkins, 1890 extension; Dr. Karen Craig, home economics; and Dr. John Bowen, veterinary medicine.

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[1] See p. 731 for the prepared statement of Dr. Flatt.

These are the experts, so if there are questions that follow up that members of the committee would like——

Senator LUGAR. We are grateful that you are all here.

Dr. FLATT. The task force submitted our suggested amendments to the committee in response to your request last year. I would note that we believe that the basic authorities are sound. So our suggestions on the whole are just perfecting in nature. However, we would like to look at the specifics of these proposals, and I would like to briefly look at an overall agricultural situation.

Clearly, our Nation's agriculture is facing difficult economic, social, and physical questions. While farm prices and income are languishing, farm debt has risen to about $220 billion. At the same time, record high Government program costs are threatening the credibility of our agricultural programs. We are facing severe problems for which immediate relief is needed.

Even as we seek solutions to the current problems, we must not become so preoccupied with the present that we overlook the future. And, further, it is critical that we remember agriculture is an inclusive term for a remarkably complex and integrated system of food and fiber production, processing and marketing. The keystone of the system is the farmer. However, the farmer's remarkable production performance depends on an extensive supporting cast.

One of the most important factors is our uniquely rich natural resource base. Public investments in transportation, communication, education, and even regulation are vital blocks in the system. The production and availability of machinery, fertilizer, pesticides, and other inputs expand the producer's productivity. The contributions of the marketing sector—processors and retailers—are critical to the system. Further, the service industries, like banking and insurance, lubricate the system. And the entire system rests on technology, the result of years of research and development.

Today, a significant share of our farm families face severe economic stress. Naturally, concern for these people is foremost in the thoughts of the Congress. Every land-grant university in the country shares the concerns for financially stressed farm families. Extension is conducting special management programs to aid farmers in meeting their financial crisis, and in nearly every State we are conducting special programs to help the farm families cope with the emotional trauma they are experiencing. Our researchers are working around the clock to find cost-reducing systems to aid in the recovery.

However, I again raise a word of caution: Don't forget our long-term responsibilities as we seek solutions to today's problems. I do this because OTA recently released a report at a Senate hearing entitled "Technology, Public Policy and the Changing Structure of American Agriculture." This report in its entirety is thoughtful and constructive. However, a few provocative ideas from the report present a biased view of technology. The following quote from a news release is indicative of the problem:

> The study in essence states that new agricultural technologies will lead to growing surpluses in many commodities in the years ahead and unpredictable supply and demand fluctuations. As well, OTA reports that new technologies are contributing to the demise of traditional moderate-sized farms, and the growth of large industrialized operations that can afford the new innovations.

The following quote by Senator Abdnor, chairman of the Joint Economic Committee, however, puts the issue in context:

> Some have suggested that we preserve the state of American agriculture by discouraging this kind of technological growth. We can no more turn back the clock on technological progress than we can effectively stop our international competitors from using new innovations against us in the marketplace if we don't keep pace.

There have been fundamental changes for agriculture and our Nation in the past 15 to 20 years. The internationalization of agricultural markets as well as our national economy have injected volatility into the system. Related events, such as the organization of OPEC and booming oil prices as well as the decision to permit the dollar to float added more volatility.

Mr. Chairman, my statement will go on for about another 3 or 4 minutes, if this is all right.

Senator LUGAR. I would ask you to bring it to a conclusion at this point and perhaps in the questioning period we might get into additional aspects.

We have been asking each of our witnesses, if they could, to hit the highlights in a 5-minute period of time.

Dr. FLATT. Well, the highlights will be gotten to by Dr. Woeste and Dr. Foil, but we do want to touch briefly on three major items in S. 616, targeting the extension 3(d) programs and research on small and moderate-sized farms, elimination of the Special Grants Program, and elimination of EFNEP.

And our two major initiatives are to begin a national nutrition program and to provide facilities for 1890 extension. These are areas that are long overdue.

We fully share your concern for the small and moderate-sized farm operations and support the objectives of your provisions. However, we caution against inclusion of these requirements in the law. Most of our agricultural extension programing is already focused on these target populations. However, extension 3(d) programs are unique and 85 percent of 3(d) is for programs that are not producer-oriented—EFNEP and urban gardening.

Dr. Woeste is prepared to more fully discuss this issue.

In research, fully 97 percent of our research is size neutral. These points make the proposed requirement moot, yet the language could become the basis of legal harrassment suits against our institutions similar to the *California* case brought by the California Rural Legal Assistance Foundation.

The special grants category contains important and appropriate research efforts. Fully two-thirds of the funds go to the national projects, while one-third are used for targeted programs, usually in one State. We recognize that abuses could occur with regard to funding allocation, but we believe that this authority is a legitimate and important provision.

I have an analysis of the current special grants program that I would like to make a part of the record, and I would note that Dr. Rodney Foil is prepared to more fully discuss this issue and the targeting of research on small- and moderate-sized farms.

Mr. Chairman, we strongly support the need for nutrition education. EFNEP has been shown to be effective by repeated evaluations and studies. Our greatest concern is that this program is reaching only a small share of the target population and we are not providing comprehensive nutrition education to the broader population. This is the reason for our nutrition education initiative. Dr. Karen Craig is prepared to discuss any specific questions in this area.

Mr. Chairman, the other members of the panel have submitted their written testimony, and we would like to make them a part of the record.[1]

Thank you.

Senator LUGAR. All of the testimony will be made a part of the record. At this point, Dr. Woeste or Dr. Foil, if you would proceed, I would appreciate it.

Dr. FOIL. Thank you, Senator Lugar, and it won't require me very long to reinforce what Dean Flatt has said with regard to the feelings of the directors of the State agricultural experiment stations nationwide.

As he has indicated, we generally support and applaud the programs that have been established under title XIV, as amended in 1981. Most of our suggestions for change are perfecting, as Dean Flatt mentioned.

I respond only to some new initiatives that were identified in S. 616 that is before you at this time—and Dean Flatt has identified those.

Experiment station directors can certainly support and strongly commit our scientists to the effort identified in meeting the needs of the small- to moderate-size farmers. As a matter of fact, in 1981, through our ESCOP committee on national policy, we developed a report on research and the family farm for our own use to call attention to our scientists and our administrators the needs to address the very issues that I think led to the language in Senate bill 616.

It was in this study that we point out or found and articulated for the first time that 97 percent of our research is either size neutral or focused on small- to moderate-size farms, and about 3 percent focused on larger farm enterprises.

But we recognized in this report that progress was not as it should be even with this focus, and pointed out some policy changes that we felt would be appropriate.

We plan on continuing in this direction, but we would strongly request that the regulatory language that is proposed in Senate bill 616 be reconsidered for the reasons that Dean Flatt has mentioned. If we must have an actual monitoring and evaluation program for each of the research projects that our scientists participate in, it would in some ways amount to developing an environmental impact statement. We think that that money could be better spent on research.

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[1] See pp. 733–743.

The other title that we are concerned about is the elimination of the Special Research Grants Program, a number of very, very splendid research programs that were initiated under special grants and later funded under other authorities. That particular funding authority goes back to Public Law 89-106—it's about 20 years old. It has been really effective in providing flexibility, both to the administration and to the legislative branch.

We would hope that it would not be curtailed.

The last item that I will mention is the proposal that competitive grants be subjected to a matching requirement. This is an issue that the directors of the State agricultural experiment stations might be able to support because of the nature of our research programs. But in looking at the good of American agriculture and the good of American agricultural science, our position is that we feel that the matching requirement would close out from participation in these programs a number of the members of the scientific community that the program was actually designed to draw them into agriculture, and we would suggest that the matching requirement not be mandated.

Aside from these major concerns about Senate bill 616, we have submitted in written testimony an analysis of this section by section of our comments on the current title, and in general these are not controversial.

Senator LUGAR. Thank you, Dr. Foil.

Dr. Woeste.

Dr. WOESTE. Mr. Chairman, we have presented our statement as well, and we support the statement given by Dr. Flatt which represents the division in total. My comments will be very brief.

One of the things he indicated we would speak to specifically—we have had and continue to have a continuing concern for the need for a National Nutrition Education Program. One component of the existing effort is the Expanded Food and Nutrition Program. The effectiveness of the program has been repeatedly documented.

Mr. Chairman, we think eliminating the Nutrition Education Program for low income would be a serious setback to our long-run objective of overcoming critical nutrition problems and diet- and health-related problems.

With that I will stop, and we will look forward to your questions. Thank you.

Senator LUGAR. Thank you very much. We will proceed now to John Shields.

STATEMENT OF JOHN SHIELDS, MANAGER, TENNESSEE VALLEY AUTHORITY, OFFICE OF AGRICULTURE AND CHEMICAL DEVELOPMENT, MUSCLE SHOALS, AL

Mr. SHIELDS. Thank you, Mr. Chairman. I am John Shields, manager of the Tennessee Valley Authority's National Fertilizer Development Center at Muscle Shoals, AL.[1]

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[1] See p. 755 for the prepared statement of Mr. Shields.

I am delighted to have the opportunity to comment on behalf of research and extension part of the farm bill, because it has been and continues to be such a vital part of our programs at the center.

At the national center we have programs that deal with developing new fertilizer science and technology for the Nation. In the development of this new technology, which is in the form of new products and/or processes, includes such areas as developing synfuels from coal in order to produce a substitute for natural gas, that could be used to produce ammonia; raw material utilization that goes into the manufacturing of processes that are available in the marketplace today; and also developing different types bioenergy systems that are now coming into practice and which we are involved in at the center.

Of all this research, which is basically scientific, most of it very basic, long-term, and high-risk, we have worked with the Extension Service and the experiment stations for the past 40 years in transferring this technology.

I would like to comment first on the experiment station. The reason we have chosen to use experiment stations for cooperative research is because they do have the system throughout the country that is located and highly visible in areas where we can test our products under the soils, the climatic and management conditions that are out there, under the different types of systems that farmers are operating under.

From the standpoint of the Extension Service, we have found that by cooperating and contracting with the Extension Service that we can use that delivery system, which is much more cost-effective and already in place, and that by contracting with them we can forego the overheads that normally you have to accrue when you are administering programs of your own, and consequently we are using the dollar much wiser and much better.

We have found this system to work extremely well in every place where we have contracts.

We have contracts now in about 40 States, 40 land-grant institutions, not only with the 1862 but the 1890 traditional black institutions as well, and also in Puerto Rico.

We have found that, and I think everyone recognizes it—research is not a short-run phenomenon, but rather it is a long-term insurance policy for the American consumer.

And as we look at of innovative research and demonstration programs needed to transfer technology—and we do believe that we have been highly successful in transferring our technology—we have found that the extension system and its companion research group with the experiment stations enabled us to test effectively and also test for the benefit of the American people. And with the whole package approach getting technology to the farmer, it has certainly helped our organization immensely.

And last but not least, being a product of the system itself, I do believe that as we look at the type of research and institutional need of agriculture today, that it is imperative we continue to train scientists for the future, and I think the land-grant system has the capability and certainly should have the mandate to do so for the benefit of American agriculture.

Thank you.

Senator LUGAR. Thank you very much, Mr. Shields. I will now call on Ms. Schenck to testify.

STATEMENT OF JANE SCHENCK, EDUCATION DIRECTOR, PELLON CO., NEW YORK, ON BEHALF OF AMERICAN HOME SEWING ASSOCIATION

Ms. SCHENCK. Thank you. Since I work in New York City, you will have to change gears a little bit. I know nothing about small farms, irrigation, let alone fertilizers.

I am the education director for the Pellon Co., but today I represent the American Home Sewing Association, and I am joined by John Chwat, who represents the association here in Washington.[1]

Our association represents the entire home sewing industry in the United States, including such areas as fabrics, patterns, sewing machine manufacturing, retailing, wholesaling, and publishing.

Today the sewing industry generates over $3.5 billion in sales annually through 20,000 retail stores serving over 40 million home sewing consumers.

The American Home Sewing Association would like to recommend to this committee a new program for inclusion in the U.S. Department of Agriculture's Extension Service Smith-Lever Act, section 3(d), funding category entitled "Sewing Education."

A sewing education program, with the total support and cooperation of the sewing industry and the members of our association, would provide a basis for increased participation by citizens in Extension Service activity throughout the United States in urban as well as rural communities. It is probably one of the few agricultural programs that would provide a program for direct participation by people in urban areas.

While clothing and textiles represent a modest portion of the existing 4-H Extension Service education program, clothing is a basic necessity of life and therefore sewing and clothing-related programs take on economic importance to our society that far exceeds that of other desirable but less fundamental programs. Sewing skills enable people to lower their expenses for clothing and to obtain income through utilization of their sewing skills by performing part-time or full-time sewing-related work.

Since sewing is a learned skill, people need to be taught the basic skills. Given the problem of high unemployment in some areas, the importance of providing programs that will serve the special clothing needs of targeted population groups is critical.

At this point, Mr. Chairman, I would like to introduce a study done in cooperation with the Extension Service through our Washington representative, Mr. Chwat.

Mr. CHWAT. Mr. Chairman, we talked to Dr. Greenwood of the Extension Service and she provided us with something called the National Accomplishment Reporting System, which takes all 50 States, shows the clothing and textile courses, numbers of participants, and the estimated net value of the products that they made.

The bottom line is that we picked just 20 States, 163,000 participants—incidentally, in Indiana there are 12,000 people who take clothing-textile courses in 13 counties, and Alabama is listed. Their estimated net value of products is $6,700,000. If you take all 50 States and their participants were able to sell their sewing products, the total tax revenue generated for the Federal Government would equal about $3.3 million.

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[1] See p. 757 for the prepared statement of Ms. Schenck.

Ms. SCHENCK. The program the Home Sewing Association would like to recommend would have a major impact on almost 3 million individuals working with the Extension as volunteers, 4½ million 4-H enrollees and 112 million citizens affected by the Extension Service Programs.

Our association feels that the sewing education program should be a part of the Extension Service Smith-Lever section 3(d) for several important reasons.

No. 1, our association already works cooperatively with the Extension Service in a variety of areas such as cosponsorship of our highly effective sewing by satellite teleconference.

No. 2, the return for the dollar is enhanced by the impressive number of volunteers who are unpaid yet are effective influences in their community.

And, No. 3, Extension works with a cross-section of people and has offices and staff at the county and State levels.

The Sewing Education Program can be a cooperative effort between the U.S. Department of Agriculture and the private sector. The type of program we envision would serve young and old, poor and rich, urban and rural. It would be developed with support from the industry in order to expand the number of individuals in our society that want to learn how to sew.

Two key goals of this proposed program are for people to recognize the importance of sewing and to learn the skills required to make or repair clothes.

We propose that the committee authorize $1.7 million for fiscal year 1986 for the Sewing Education Program. The authorization of these funds would be targeted to training existing Extension leaders and volunteers in sewing education, and not the creation of new jobs or salaries. The program development decisions on this new program could be implemented at the discretion of the U.S. Department of Agriculture with the cooperation of our industry.

In summary, we recommend the following specific points.

Sewing education should be included as a specially targeted Smith-Lever section 3(d) program within the year 1986.

Language should be included in the House Agriculture Committee report which supports the program.

And, finally, an authorization for the year 1986 should be made for $1.7 million for a Sewing Education Program.

Thank you.

Senator LUGAR. Thank you very much, Ms. Schenck. Now, Robroy Fisher.

Mr. FISHER. Senator Lugar, I liked it better when you called me Dr. Fisher. I wish I deserved that title, but with your indulgence I would like to ask Rodney Foil, who is our State experiment station director, to note that I have a title that is more respected in the U.S. Senate than it is in the agricultural community in Mississippi.

Senator LUGAR. You are a very distinguished witness, and we are glad to have you.

STATEMENT OF ROBROY D. FISHER, CHAIRMAN, COTTON INDUSTRY/GOVERNMENT RESEARCH COMMITTEE, NATIONAL COTTON COUNCIL OF AMERICA

Mr. FISHER. Thank you. As I said, my name is Robroy Fisher, and I am a cotton farmer from Greenville, MS, and I am testifying today as chairman of the National Cotton Council Government-Industry Research Committee.[1]

The council is the central organization of the cotton industry, representing producers, processors, and handlers in 18 States.

I would like to assure you, Mr. Chairman, and Senator Heflin, that we vigorously support a balanced reduction in the Federal deficit. We in agriculture are willing to do our part, because we believe reducing the deficit is the surest way to bring the dollar into a more favorable relationship with other currencies and make us more competitive in world markets.

A pressing issue that directly relates to the deficit and to improved competitiveness is the public investment in agricultural research and extension. We feel that maintaining adequate budgets in both these areas is not only a competitive necessity but a sound national investment that will pay dividends far in excess of its cost. These dividends, as they relate to agricultural research, if I am not mistaken, have always averaged around a 50-percent dividend over the investment, Senator Heflin, that we have made over the years in agricultural research.

U.S. agriculture is up against stiff and growing competition for markets at home and abroad. Virtually all of our commodities most now compete with foreign production that in many cases has been forced into the markets through export subsidies or special actions of central governments.

Those of us in cotton and some other commodities also have to compete with synthetic producers as well.

In recent years, most of U.S. agriculture has suffered market losses, especially overseas. This declining competitiveness in export markets is a serious threat not only to the strength of U.S. agriculture, but to the strength of the U.S. economy.

To keep our products competitive, we desperately need research to reduce costs and cut losses. And at the same time we need Extension efforts to speed application of the new technology developed.

Federal investment in these vital programs has not kept pace in recent years. When inflation is taken into account, expenditures by USDA's Agricultural Research Service and the Cooperative State Research Service have actually been less in each of the last 4 years than they were in 1977.

A similar lag in extension funding adds to the problem.

For two decades now, the number of U.S. agricultural scientists has remained static. Indeed, with personnel ceilings and tight budgets, there has been a net reduction in science years.

But in Europe, Russia, China, Japan, Canada, India, and Brazil the total is up dramatically, the number of scientists that they are devoting to agricultural research.

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[1] See p. 762 for the prepared statement of Mr. Fisher.

When coupled with the technology transfer that the United States has made available, substantial production efficiency gains in these countries will hurt U.S. agriculture's competitive position even more.

The funding authorization proposed in this act for agricultural research and extension falls far short of need. The Agricultural Research Service would be limited to an annual increase of only 1½-percent from the 1985 budget appropriation. The Cooperative State Research Service would be limited to 1¼-percent annual increase. The extension authorization would actually be reduced by 18 percent over the next 4 years.

Unless inflation drops below 1½- or 1¼-percent increase a year, this actually means a decrease in funding for all three. It is in stark contrast to the 13-percent increase in all other Federal Research and Development Programs.

We feel that the needs of agriculture deserve a higher priority and share of the Federal research budget.

Even with moderate inflation rates, these authorization limits mean severe cuts in programs that are absolutely vital to making U.S. agriculture competitive once again. If our country is to remain the most efficient producer of food, fiber, and forest products for U.S. consumers and the growing markets of the world, real growth must be provided in funding for agricultural research and extension.

We therefore recommend the authorization of a growth of at least 2 percent annually above inflation rates for the ARS and the CSRS Programs.

Thank you, Mr. Chairman.

Senator LUGAR. Thank you very much, Mr. Fisher.

Senator Heflin, do you have questions of the panel of witnesses?

Senator HEFLIN. Yes, I would like particularly to ask Mr. Shields, since he is from Alabama, my home area—and I know him quite well—I think he has been very modest in his testimony about the importance of the National Fertilizer Development Center of TVA, which is really the only national and international fertilizer development center that we have in the world.

In a letter addressed to Senator Pete Wilson of California from an official of U.S. Borax & Chemical Corp. in California recently, they were pointing out the importance of this National Fertilizer Development Center. In that letter they cite that the use of chemical fertilizers accounts for about 40 percent of all of U.S. crop production, and that three-fourths of all of the fertilizer used annually in the United States is made from technology pioneered by the TVA scientists at this Muscle Shoals National Fertilizer Development Center.

I know that when the proposed budget cuts came up, the National Fertilizer Institute has rallied and has tried to point out the importance of this National Fertilizer Development Center. And I wanted to mention that.

Mr. Shields, let me ask you a few questions.

How does this National Fertilizer Development Center relate to the land-grant university research and extension service?

Mr. SHIELDS. As I said in the formal testimony that I submitted, which was a much longer statement, Senator, than I made orally just a moment ago—let me give you an example, when TVA develops at the National Center a new fertilizer technology, let's say fluid fertilizer, which has gotten to be a very specialized type of material these days—one of the first things we do is go to the experiment station and ask them if they will take this material and test it in different parts of the country in their experiment stations, under their soil conditions, their climatic factors, the irrigation systems that we heard described earlier, and also to look at it from the standpoint of its utilization with the different types of crops.

At the same time, as it begins to show probability coming out of the research stage into the commercialization stage, we would then ask the Extension Service if they would work with the experiment station and move this onto farmers' fields and into other forms of testing and evaluation.

We have found that by doing that, it enables us to maintain a very small cadre of research capability rather than having to employ a large number of people who would have to be field agents—let's say counterparts to extension agents and so forth, which it simply would not be cost-effective for us to do so. And at the same time we find that the university serves as one part of this trilogy of us working with the industry.

So you are cycling information through the industry, through the university, to TVA, back and forth, always learning from each other. And this has proven to be a very effective system. Very cost-effective.

Senator **Heflin**. What is the National Fertilizer Development Center's mission?

Mr. **Shields**. Simply stated, Senator, our mission is to develop the best fertilizer science and technology and introduce it to the American farmer for the benefit of the consumer at the cheapest possible cost.

Senator **Heflin**. How have you fulfilled this mission?

Mr. **Shields**. Well, I think we have been very effective in the fact that—you also quoted very well—let's see if I can quote your figures now that you just read a moment ago—75 percent of all the fertilizer that is used in this country has been developed at the Tennessee Valley Authority. In fact, if you look in other parts of the world, perhaps it is even more so than the 75 percent; and when you consider that 40 percent of the production comes from the increase of fertilizer obviously used in a combination with the other agricultural inputs, which you must use as a package approach, and I must emphasize a package approach—and when you consider that four of the top fertilizers used in the world today are from technology at the center, I think it's been pretty effective.

Senator **Heflin**. Would you list some of the major contributions of this fertilizer program?

Mr. **Shields**. I mentioned first of all the fluid industry. About one-third of all the fertilizer used in this country today is from the standpoint of fluid fertilizers. Fluid fertilizer enables the farmer today to be able to not only apply his nutrients, but he can also apply herbicides, pesticides, and a whole host of other products.

I think one unsung hero aspect of this has been that when you consider the tremendous amount of export that agriculture contributes to today, as I said in my paper, it's been a rather bright star in a rather dismal galaxy of deficits. And when you consider that, again, 40 percent of those exports might be attributable to fertilizer, I think you can see that it has been very effective in transferring technology.

Senator **Heflin**. What are your present priorities in this fertilizer research and development?

Mr. **Shields**. I would say we have three major present priorities, Senator. One is in this area of nitrogen efficiency. Agronomists and scientists tell us that about 40 to 50 percent of all nitrogen fertilizer applied today is lost either through volatilization or leaching or whatever the case might be.

We now have intensive programs under way trying to find ways and means by which we can keep more of the nitrogen in the soil and have it taken up by the crop.

Second, in the area of raw materials, and basically in the phosphate area, we find today that most of the phosphates, the good phosphates, have been mined in this country, and while Florida and the Carolinas and some of the western fields still yield a great deal of phosphate, they are very low-grade ore. And we have just recently had several of our scientists that has patented a new process that has just been released that could possibly save the industry and the farmer millions of dollars because of a simplified method of extracting the ore and removing the impurities.

And those are just two or three quick examples.

Senator **Heflin**. How many Ph.D.'s do you have at this center?

Mr. **Shields**. We have about 225 degreed scientists; out of that, about two-thirds are Ph.D.'s, Senator, trained around the world.

Senator **Heflin**. I believe that's all, Mr. Chairman.

Senator **Lugar**. Thank you, Senator Heflin. Dr. Woeste, with the Nutrition Program that you are presenting, I was simply curious as to what kind of reception those involved in the Expanded Food and Nutrition Program have found in trying to alter diets of persons with whom you have worked. Granted there is general harmony in the nutrition community about the desirability of consuming fresh fruits and vegetables and other things, but habits are often substantial.

To what extent are habits altered in the program during the period of time that you work with people?

Dr. **Woeste**. The efforts—the Expanded Nutrition Program, as it was set up, as you know, Senator, was targeted primarily toward limited-resource families, and then special attention to families of child-bearing age. There were and continue to be special problems there.

In terms of—if I understand the nature of your question—while we find that we have to make special efforts in many cases, go out and establish a working relationship with the family, we have developed methods or techniques for doing that, and we find that the receptivity of the individuals, the willingness to participate, is very good.

The thing that we are more interested in is, OK, what kind of progress are the families making once they become involved in the program. We have a good bit of data on that some of which was submitted in the testimony. I would be happy to gather some additional data.

But we are finding, for instance, that the graduation rate—and by graduation we mean that families that we start with have demonstrated a capacity to plan and to practice over a period of time a food and nutrition pattern that meets the standards in terms of balance in nutrients, is in the neighborhood of 60 to 70 percent within the first year.

Now, the other thing we are finding is that many of the families when we began working with them, the areas that they are most deficient in, the areas of vitamin A, in vegetables and fruit, and in the dairy products and protein level. And so what we find in many of these families is that the thing that we have to work with them on, and the change in behavior that we see, is their increased consumption in fresh fruits and vegetables and in the meat and milk area.

Our intention, of course, is to get a balance in terms of the consumption pattern for a balanced diet.

Senator LUGAR. But you found that people are able to make these changes in diet, given this information? If they have the information, there is also a willingness to move out of former patterns of diet?

Dr. WOESTE. Right, sir, they have—and that has been documented in both studies that we have done internally, because we were interested in knowing what kind of progress are we making, as well as studies that have been done by external groups.

Some of those we have done followup studies over a longitudinal period of time. Now, as you indicate, clearly the research shows—and all of us know that what we eat is very much a habit kind of thing. But we find, for instance, with many of the young families that they are really concerned about the growth and development of the children, and if they recognize and find a way to ensure that what they are providing that child in the home in terms of what they eat and the eating habit is contributing to their growth and development and their performance in school, their general performance of that individual, they will respond.

Senator LUGAR. Ms. Schenck, let me ask you with regard to the Sewing Program, is it your general thesis that the authorization of $1.7 million for sewing education would lead to benefits in terms of employment or in terms of utilization of this information by families. What is the payoff in terms of public expenditures and public policy in this kind of investment?

Ms. SCHENCK. The program that we outlined would be for developing training materials that then the cooperative extension agent would use—it's used in her local area to train other resource people to form a whole network of teachers.

One program that they have, for instance, in Rhode Island they call the Master Teacher Program, where they provide materials for a small group of women who are trained to be teachers to then go out and train a network.

Another program that they have is called sewing for profit, which is another program for adults. And there they are trained with basic sewing skills, also bookkeeping skills; and in that case many times it is taking a woman who has had a low income, she learns some sewing skills, business skills, so that then she can do alterations or dressmaking in her home and provide an income for her family.

Senator LUGAR. Thank you very much. Senator Heflin, do you have additional questions?

Senator HEFLIN. I would like to ask the gentlemen who represent the land-grant systems a question. In discussions that I have had with representatives from Auburn University and Alabama A&M and Tuskegee, which all are involved in some form of land-grant colleges and universities in Alabama, they have expressed concern over the proposed budget, indicating to me that the research would be cut 13 to 15 percent overall in the land-grant colleges and universities, that the Extension Service would be cut by 25 percent.

I just wonder: What in the proposal relative to the experiment stations—it may well be that is included in something—what are the proposed cuts relative to the experiment stations?

Dr. FOIL. I could respond to that, Senator. I don't have the budget firmly in mind, because we have another group that works directly with it. But, in general, the recommendations from the executive branch call for the elimination of a number of national and regional research programs. One that I am very familiar with—and I know that your people would be interested in—is special grants for aquaculture research. Dean Liska earlier mentioned the importance and excitement of the catfish industry.

That would be eliminated.

There is a national program of pesticide impact assessment that is proposed for elimination. The Integrated Pest Management Research Program that has been conducted nationally is proposed for elimination. As you mentioned, it is about a 13-percent reduction. As Mr. Fisher indicated, we in agricultural research don't feel that we should be immune from the kind of treatment that we know that the Federal Government has to face with regard to deficits, but we would seek a balanced approach, and we do think that in research particularly the rapid fluctuation in funding levels results in shortfalls down the pipeline years and years in the future that will be very, very difficult to recoup.

So, our position is that we would hope that funding could be allowed to support these particularly critical national programs that are proposed for elimination.

Senator LUGAR. Mr. Fisher, Senator Zorinsky has asked that I ask you this: In your prepared text, you indicated that pest problems cause an estimated $35 billion loss to agricultural production each year.

As you may know, the Pest Management Program operated by the U.S. Department of Agriculture under the Extension Service received about $7.5 million for fiscal year 1985. For the next fiscal year the administration has proposed not to fund the program.

Would you agree with the administration's budget?

Mr. FISHER. Senator Heflin, I can't support that in any manner. The Integrated Pest Management Programs, both with weevils and some work we are doing with the boll worm and everything, has really been invaluable to our area of the country—and I know certainly it is in Alabama and the Carolinas and everything.

It seems that as fast as we are able to subdue, if you will, one pest, that there are others that come along that are worse than the ones that we were dealing with before. And I don't think that any farmer would fail to give credit to the Extension Service and the tremendous job that they do in helping us to manage insects.

We found out a long time ago that if for none other than economic reasons that we can't solve the problem by going out there and throwing a bunch of chemicals at them.

But this has been, I think, a very, very effective program, and I think indeed that we have just scratched the surface in what we will be able to do in the future with pest management.

Senator HEFLIN. Mr. Shields, is there any other research center for fertilizer existing in the country other than the one at Muscle Shoals on a basis of any real organized effort?

Mr. SHIELDS. No, sir; the National Laboratory at Muscle Shoals is the only organization that has a very complete and positive program of studying fertilizer research all the way from the basic chemistry through the agronomic through the economic and engineering aspects.

As I said, once we get it to the point where the technology can be taken out to the field and tested and researched, then the other side of the issue comes into play.

But as far as basic and fundamental and partly applied research is concerned, there is no institution in the country. There is some work going on in the industry which we work extremely closely with. We have research committees with those folks all the time.

But from the standpoint of chemical research, there is none.

Senator HEFLIN. What is the proposed budget due to the National Fertilizer Development Center?

Mr. SHIELDS. This probably makes my last appearance before this committee in the sense that the administration has allowed us $10 million for research and eliminated all of the technology transfer and all of the other parts of our program.

Senator HEFLIN. What was the total amount of your budget last year?

Mr. SHIELDS. $46.7 million.

Senator HEFLIN. $46.7 to be reduced to $10.

Mr. SHIELDS. A 70-percent cut, sir, roughly.

Senator HEFLIN. Thank you.

Senator LUGAR. We deeply appreciate the appearance of each one of you and your forthcoming answers to our questions.

The hearing is adjourned.

[Whereupon, 3:24 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, April 18, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

Agribusiness Issues

THURSDAY, APRIL 18, 1985

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:15 a.m., in room 328-A, Russell Senate Office Building, Hon. Mitch McConnell presiding.

Present: Senators McConnell, Zorinsky, Boren, Dixon, and Heflin.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Senator McCONNELL. Good morning. The hearing will now begin. The subject today is agribusiness issues relating to the 1985 farm legislation. Our first witness is Ron Johnson, who is executive vice president—we actually have three. Ron Johnson, executive vice president of Agrico Chemical Co., Tulsa, and also chairman, Agricultural Policy Committee, the Fertilizer Institute; G.W. Garrett, Alliance Agronomics, Inc., from Mechanicsville, VA, and member of the Agricultural Policy Committee of the Fertilizer Institute; and William S. Armfield, president, National Fertilizer Solutions Association, Peoria, IL.

Are those gentlemen here?

Senator Boren from Oklahoma is here and a member of our committee. And he would like to make some opening remarks.

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. Mr. Chairman, I am very pleased that we have Ron Johnson with us this morning, he is executive vice president of Agrico, one of our large chemical fertilizer companies in the State of Oklahoma, a subsidiary of the Williams Co.

Ron has been with them since he graduated from the University of Missouri in 1950 and came across the border to the right side. He is very much a respected business leader in our State.

He is the chairman of the newly created Agricultural Policy Committee of the Fertilizer Institute. The creation of this committee is a recognition of the importance of farm policy, not only just directly to farmers, but to the agribusiness network and all that goes with it.

I am glad that these hearings are being held today and that we can focus our views on the impact not only on farmers who produce, which is of extreme importance, but also to the broad agricultural economy and agribusiness as well.

I just want to join you in saying a special word of welcome to Ron Johnson. I know members of the committee will benefit from his testimony.

Senator McConnell. Thank you.

I also wanted to mention, Mr. Johnson, that our colleague, Senator Nickles, would have been here today, but he is on his way to the airport and sent over a statement that I would like to insert into the record with reference to you.[1]

Senator Boren. Mr. Chairman, Senator Nickles had planned to be here. He called me this morning. However, since we had to change the time, he had to go ahead and leave.

He asked me to tell Mr. Johnson how sorry he was he could not be here.

Senator McConnell. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator Heflin. Agribusiness, an agrisupply business, is very important. Sometimes we develop policies that have a disastrous effect upon this business.

I know that, relative to the PIK Program, before the PIK Program went into effect the Department of Agriculture was warned that unless it was properly carried out, it could have a bad effect upon agribusiness and agrisupply business for users of feed grains and others.

I unfortunately do not think all the proper planning was given to it. The PIK Program did have some effects upon these types of businesses. Hopefully, as we plan for the future, we must bear in mind that they are related businesses to agriculture, and can be affected by our policies.

As we focus on this farm bill, I hope we bear in mind all elements of agriculture, including the agribusiness element.

Senator McConnell. Thank you, Senator Heflin.

Gentlemen, we would like you to confine your remarks to 5 minutes each. If you have a full statement, we will have that inserted into the record.

Mr. Johnson.

STATEMENT OF RON JOHNSON, EXECUTIVE VICE PRESIDENT, AGRICO CHEMICAL CO., TULSA, OK, AND CHAIRMAN, AGRICULTURAL POLICY COMMITTEE, THE FERTILIZER INSTITUTE

Mr. Johnson. Thank you, Mr. Chairman.

Because of the introductions from the Senators, I guess it is not necessary to introduce myself.

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[1] See p. 766 for the prepared statement of Senator Nickles.

On behalf of the Fertilizer Institute we wish to thank the committee for holding this special hearing for agribusiness.

I am the chairman of the Agricultural Policy Committee. Our trade association decided to join in the farm bill today as a result of the 1983 PIK Program and the profound economic impact it had on our industry.

I am joined here today by the gentlemen who was previously introduced. I do ask that our joint written statement be included in the record as you indicated it will be.[1]

Senator McConnell. It will be inserted.

Mr. Johnson. To follow up just a little bit with some of my comments, I am the executive vice president of the Agrico Chemical Co., an integrated mining and manufacturing company with nearly $1 billion in assets and annual sales revenue.

We operate three separate phosphate rock mines, two phosphate acid plants, four anhydrous ammonia plants in the United States. Our company has 12 to 15 percent of the U.S. market. We have 91 terminals and downstream warehouses conveniently located to supply 1,500 independent dealers and merchants in virtually every agricultural community in the United States.

My company operates as a wholly-owned subsidiary of the Williams Co., headquartered in Tulsa, OK. Williams is a publicly traded company on the New York Stock Exchange, has about 21,000 common stockholders.

I do not want to waste a lot of your valuable time describing these credentials of my company, but I do think it is important to realize that there is another sector with enormous effects from agricultural policy.

I read recently that U.S. food and fiber production had a value of $200 some billion, provided 24 million jobs, represented 20 percent of the U.S. gross national product, and one forth of the total U.S. employment.

These are big numbers. But the picture becomes even more clear when we consider that most of the activity is generated by the nonfarming but agriculturally related sector.

This part of the industry, that my company belongs to, is responsible for about 90 percent of the full value production, 7 out of 8 of those related jobs.

This is an entirely different economic environment than the situation that existed some 50 years ago when Federal programs were essentially designed. Farm legislation today has made programs that are a slight cough on the farm situation quickly turn to a case of pneumonia in the agricultural industry.

A company cannot adjust in 3 months to an 80-million acre drop in our planned fertilizer sales. We simply could not adjust fast enough. My company has submitted capital to sustain raw materials such as natural gas and sulphur 18 months prior to the farmers planting season. Fertilizer manufacturers and these highly technical chemical refineries go on night and day, every day, even though the farmer uses the majority of these products in a 6-week period in April and May.

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[1] See p. 767 for the joint prepared statement of Mr. Johnson and Mr. Garrett.

Our products travel constantly, are pipelined and trucked to 91 terminals to supply at least 12 months in advance of their use.

But with this kind of a background, you can only imagine what PIK did to us. With reasonable foresight my company began shutting down our system after the corn harvest in 1982. Two of our three mines were closed, all of our plants were curtailed. Some 850 jobs were terminated, which represents about 27 percent of the work force. We still lost $65 million year to year in operating profit. I am told our industry's total loss is somewhere in the neighborhood of $2 billion.

A public company is severely penalized by such losses. That is the reason why we are taking such an active role in stressing our views on new farm legislation.

I suppose there are those who say that if you are not satisfied with your return on investment, why do you not get out of agriculture and invest in some other area? I think that is a copout question. Because when a company my size gets out, then who is to stay in? And believe me, somebody better stay in or the situation in agriculture would really bear out.

Fertilizers are absolutely essential to the efficiency and productivity of the farmer, not just in the United States but everywhere. Few inputs if any provide the same return as fertilizers, which typically increases grain yield by 5 to 10 tons. The U.S. Department of Agriculture estimates that 30 to 40 percent of U.S. crop production is attributable to fertilizer use.

Our industry strongly supports legislation designed to eliminate what we think is an antiquated and ineffective supply management program and move to those more oriented to developing increasing demand for our farm products. If this is to be successful, we must recapture and expand our grain exports.

To accomplish this we simply must be a low cost producer. The cost per bushel comes down as the acre goes up. The bushels per acre goes up as even more fertilizer is used and with the technology advancements made by the American farmer.

It stands to reason that to lower prices and still maintain margins with the decreases or even limited supports will not be possible. On the other hand, our foreign competition will be forced to meet these kinds of prices. That is the way market forces work. And that will cause further escalations of their subsidiaries or they will have to return those markets to low cost producers which we believe are right here in the United States.

You do not want to eliminate companies like mine. You want to form legislation to encourage even greater efficiency and productivity in order that the demand for our product increases and allows this great American farm machine to function as it is designed to do.

Let me tick off some things that are very much more detailed in our testimony. We believe these are essential to new farm legislation.

One, the phaseout of supply management so we can do whatever we can to create markets and stimulate low cost production. Establish the margins with the rolling market price. These are all issues that have been discussed previously in your hearings.

Phaseout the transfer mechanisms, target prices. I said phase it out. This could be done over some period of time, 5, 6, or 7 years, whatever it takes. That could be done through a formula to determine the impact that that would have by lowering the income stream on one hand but increasing the stream on the other hand to additional volume of products. And, increase bilateral trade agreements.

For goodness sake, let us guarantee the sanctity of U.S. agriculture in the world market. Cut out the high cost of the shipping industry. We need to support the merchant marine, it certainly should be taken care of. But it should be equally taken care of by all the taxpayers.

Cap our farmer-owned reserve of excess stocks, and sell our bonus bushels to our good customers or potential good customers in the world. Increase our Commodity Credit Corporation initiatives, just as our blended credits.

All of these things we think are essential to be in the farm legislation.

Now, of course, there is one big item that we can't tackle with the farm legislation. But I think the opportunity suggests the single most important thing to improve not only agriculture but all American business is of course to get control of our Federal budget.

By reducing the demand for Government borrowing, we can increase the pressure on the dollar and it should drop. Reduce the direct cost of working capital and thereby lower production costs.

Let us inform our competitors this is an improvement in the position relative to foreign currency which would lower the purchase price of our farm products.

Is the nonfarm agriculture sector really on the way out? I do not think so. At least I can speak to my company. In January of this year we approved our plans for final development of our plant in North Carolina. That will be a total commitment expected to be some $800 million when it is complete.

We believe in U.S. agriculture and we believe in our legislative ability to provide programs designed to improve the operation of our country's most important industry. We encourage you to support programs that gradually take the increase of our ability to produce and provide us with a sense of comfort that these high investments are going to be profitable.

Thank you for the opportunity to make this statement.

Senator McConnell. Thank you, Mr. Johnson.

We will move on to Mr. Garrett. I would like to introduce him.

I am especially pleased to be introducing one of the most active people in agribusiness in Virginia. He is a member of the recently formed Agricultural Policy Committee. He also recently participated in certain Richmond agricultural listing sessions.

He received his bachelors degree from the U.S. Naval Academy, and MBA from Harvard Business School. He once served as an engineering officer, project officer in Washington. Now, he is aggressively serving farms throughout Virginia as a major retail fertilizer dealer.

He is the president of Alliance Agronomics, a small, family-owned business which he developed into a major operation. He has many distinguished service awards and serves on several Virginia bank boards. Mr. Garrett.

STATEMENT OF G.W. GARRETT, ALLIANCE AGRONOMICS, INC., MECHANICSVILLE, VA., AND MEMBER, AGRICULTURAL POLICY COMMITTEE, THE FERTILIZER INSTITUTE

Mr. GARRETT. Thank you, sir.

My name is Waddy Garrett. I certainly do appreciate the opportunity to be here today. As a friend of agriculture and as a businessman in agriculture, our small company that you described is a major one, that sounds very good. I hope it continues to be major.

Senator MCCONNELL. We are expressing your aspirations.

Mr. GARRETT. Right. We have been in business since 1890. I did not start that company. But we are privately held.

We have 11 retail plants in Virginia and North Carolina. The people in our company are privileged to serve over 2,000 farm customers in Virginia and North Carolina. Last year, 1984, our revenues exceeded $1 million from liquid fertilizers, dry, agricultural chemicals, seed, and crop management services. We also apply the same product we sell to the farmer to the land.

This year in May 1985 we will have over $7 million extended unsecured in the farm community of those two States. And as I told my banker yesterday, I might need a little help.

He asked me if I could sleep at night. I said I can sleep fine, can you?

The centerpiece of our business and the motto of our business is creating more profit for the farmer. I feel to the extent that we do that we will have succeeded in business.

With this profit per acre concept—and we live and breathe this concept—we provide over 120 separate service benefits to our farm customers in addition to the products that we sell.

For example, in the last year we invested in an IBM or Apple personal computer for each one of our 22 salesmen to take to the farm, to sit down with the farmer to construct an entire fertilizer and pesticide program. All together the 120 service benefits are backed from a marketing survey that I did 2 years ago and then designed to lower the cost per bushel to increase the yield and solve the problems of the farmer.

In 1983-84 I put over $2.5 million into the business for expansion. This is greater than any of the total years, 92 years, that we have been in business prior to that. In spite of PIK, announced in January 1983 and the signup on March 20, we survived 1983.

Our corn season begins March 25. Signup is now March 20. Since I hired people, bought material, bought equipment, it was a rough year. It was our only loss year in 93 years of business. I am not here for a subsidy, however.

One of the strengths in Virginia and the eastern seaboard is the variety of crops. Therefore, the agriculture credit situation that we have in the East is not as severe as the Midwest. But it is still a concern to all of us in farm supply.

However, the agriculture credit situation is one that is to be involved by borrowing our way out of debtor extensions of debt. I was very pleased to see that the Agriculture Department and administration acted responsibly on this particular matter.

I can say this because I am living with a farmer every day, I am right up against him. I meet with him daily, I go to church with him, I play softball with him. I meet a payroll. And his debt situation is of concern to me.

I feel that any type of easy credit or any type of program such as we have had since the 1930's are not the answer for the farmer today. I feel the answer for the farmer today rests in our one greatest strength, and that is the fact that we are the lowest cost producer in the world. In that vein, if we take two approaches we can solve this problem without lots of money from Washington.

No. 1 is the concept of maximum economic yield. If the farmer is allowed and encouraged to grow the maximum amount per acre, he will be the low cost producer on every bushel. That, combined with a strong export enhancement program, will allow us to be competitive in a world that is not quite as free trade as some people imagine.

I certainly support Mr. Johnson's recommendations as he outlined them and as are in the summary testimony that you have been provided with. I certainly support the phase out of supply management, a loan rate program that coincides with market rates, phase out of target pricing, increase of the bilateral trade agreements, elimination of the cargo preference burden on agriculture. They are all mandatory to get the farm sector back in balance.

Last Wednesday night I was having dinner with a farmer who farms about 820 acres with his son and a hired hand. He was talking to me about 1984; 1984 for this farmer was a good year. He had paid for all his crop inputs, replaced two of his major farm implements, and had at the end of the year close to $100,000 more in cash than he had at the beginning of the year.

But I did not see this farmer in the headlines of any paper. He is a very efficient farmer. He is the guy that we need to stay in business. He is not a corporate farmer, he is a family farmer. And he is making money on the farm. He resents the fact that we have to describe agriculture as a hand out industry. I feel the majority of the farmers also are in that same boat.

Again, I want to say how much I appreciate being here today. And I want to emphasize that I feel that the farm situation, where it is a crisis, is not insolvable. I think with the help of the Washington input we can solve it together. Thank you very much.

Senator McConnell. Thank you, Mr. Garrett. Senator Dixon's constituent, Mr. Armfield.

Senator Dixon. Mr. Chairman, I would like to introduce William Armfield, the president of the National Fertilizer Solutions Association of Peoria, IL, and to say to Mr. Armfield that we are delighted to have his expertise this morning. Thank you for being here.[1]

Senator McConnell. Thank you, Senator Dixon.

Mr. Armfield.

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[1] See p. 766 for the prepared statement of Senator Dixon.

STATEMENT OF WILLIAM S. ARMFIELD, PRESIDENT, NATIONAL FERTILIZER SOLUTIONS ASSOCIATION, PEORIA, IL

Mr. ARMFIELD. Thank you, Mr. Chairman.

My name is Bill Armfield, and I am the 1985 president of the National Fertilizer Solutions Association. We have more than 1,300 members. Over three-quarters of them are independent fertilizer dealers.

I am a fertilizer retailer involved in the active sales and custom application of fertilizers and pesticides to wheat and feed grain farms in Kansas near Wichita.

I will depart from my written text and ask that it be entered into the record.[1]

Senator McCONNELL. Without objection.

Mr. ARMFIELD. From here I would like to: No. 1, highlight three key recommended points of our written testimony for your consideration; and No. 2, to share in some real world situations.

From the recommendations, No. 1, I ask that the label be put on this legislation to be the 1985 farm agricultural bill. We believe this is important to help recognize that the impact of this legislation reaches beyond just farmers. No. 2, we recommend that the Congress and the administration move us toward free market orientation of Federal farm and agricultural policy.

Integral to that would be a move to tie crop loan rates to a reasonable percentage of the rolling world average market price.

We also believe that consideration should be given to reasonable and gradual phase out of target prices if the cost of deficiency payments is too great a budget burden for the Government.

I would like you to know that we are we strictly opposed to deficiency payment outlays. But if you decide to reduce or eliminate them, then we ask it be done on a gradual schedule. As a guide we suggest in a transition period or a future crisis period, no Government program aimed at removing more than 20 percent of the feed grain acres and 30 percent of wheat acres from production. The Payment-in-Kind Program cost my small business in all more than $100,000 mainly due to lost sales, inventory devaluation, and extended interest costs.

We view the export market as the key to economic health of U.S. agriculture. We believe that our world market share can be regained if we get after it aggressively. Why not consider taking a fixed percentage of the budget savings from market orientation of target prices and loan prices and invest that into an exports volume bonus program or export credit guarantees—both examples of programs that will work if funded and employed.

No. 3, growing is an essential concept to the health and profit expectation of U.S. agriculture. We are producers in this business. The signals of the past farm legislation have traditionally been antigrowth. Such a stagnation policy in the future will kill this industry in its tracks. Let us get on with the business of growing and being profitable.

Mr. Iacocca of Chrslyer proved it could be done in the car business. We can think our way out of this present situation if our Federal policies work together to create a positive environment for agriculture. By all the indicators that I have to check, not the least of which is the experience of my dealership is Kansas, there is little or no fat left to trim in agriculture. As lean and mean as my business and as my farmer customers are today, I do not see any significant additional efficiencies that can save us.

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[1] See p. 775 for the prepared statement of Mr. Armfield.

We need your leadership to set the stage and lead us with a positive growth 1985 farm/agriculture bill. The 1981 farm bill, was built upon inflation. We are now at a time when deflation is running rough shod over our agricultural assets, especially farm land.

A front page article of the Wall Street Journal carried on Monday, March 4, 1985, offered some economic analysis that brings the deflation syndrome into clear focus. It cited an Iowa State University study that suggested that with the cash price of corn—at that time it was about $2.50 a bushel—prime Iowa farm land value could support values of $1,100 per acre.

However, when just 25 cents a bushel was taken from the bushel of corn, that same land could only support $675 value per acre.

This simple explanation captures for me a very vivid lesson in economics. Market prices and volumes of the international marketplace are our only answer.

U.S. agriculture is a volume business. And price alone will not sustain it. We believe that prices will come back into more profitable perspectives but only if we can get our volume of sales activity and movement back to where it was before our export markets were so severely damaged by embargos and the strong dollar. In the meantime, we need Government help for our export market potential to overcome these factors that have been self-inflicted and weigh heavily on our competitiveness today, as well as an opportunity to put us on a level playing field with our export grain competitors.

We must be careful to ensure that the market oriented farm bill and agriculture policy is not simply a Federal budget of reduction measure. The Government must stand behind our access to international markets and help with recovery of our market share.

Thank you, Mr. Chairman, for giving me the opportunity to express the views of the National Fertilizer Solutions Association.

Senator McConnell. Each of you have spoken about the need for long-range farm policy. And I know what your answer to this is but I am going to ask it anyway.

I am interested in what the implications are for the fertilizer industry for a farm bill with mandatory production marketing controls. Some of you may well advocate that. I am interested in what the implication of that would be for your particular industry.

Mr. Johnson. Well, of course, I think from my viewpoint this is an option to be voluntary. But in my viewpoint if we are to continue an effective program of trying to control or put some type of limitations on the ability of our big farm agricultural machine to operate smoothly and efficiently, if we could do that, then somehow that action is going to have to be reflected by our colleagues in other parts of the world, such as Canada, Argentina, and Australia, and other people we can trace very effectively. As our production is controlled, their production escalates.

I do not see how we—no matter how big we are or efficient we are—can maintain some type of a supply control picture. Then it seems to me that we will be in a mode of operation which will continue to limit our ability to compete in the world market for all of our agricultural products.

That in effect is what we have been doing for an awful long period of time. Perhaps not mandatory, but I do remember somebody saying that, yes, close to it. Mandatory is certainly ambiguous. I submit to you that anything absent using our big machine in its most efficient and productive way, unless somehow we can dictate or have a relationship with our other competitors, I do not see how we can control it.

And that just simply means that we are going to have higher costs per unit per widget that we are producing. And that means that we are not going to be able to effectively compete in the world market without continuing drains on our economy and some means of providing an income to this community. And we will not be competitive.

We will finally sling our businesses and our industry back to a "serve ourself" in the United States, I presume. And I do not believe that our people in this country are ready for moving from some 18 cents out of disposal dollar for food to perhaps 35 or 40 cents per dollar. That would be my opinion.

Senator McConnell. Does that reflect the view of you fellows too?

Mr. Garrett. I agree totally with Mr. Johnson.

I would like to add, I see my 2,000 farm customers, for example, I used the meeting I had the other day. This 820 acre farmer and his son, he is in the program. He runs about 80 acres of hillside land every year. And I contend that this production control emphasis has created problems. It has brought marginal land into the program that should not be produced in the first place. And it is creating an additional open supply situation.

Mr. Armfield. I would throw up one other thing. Senator Boren knows that Kansas and Oklahoma do not grow a lot of corn. Western Kansas does. Acreage controls like those of the past make certain farms that are inefficient in growing corn go ahead and plant corn or something they are not capable of producing efficiently. This adds to surplus that probably, if left on a competitive basis, would never be produced.

I had an opportunity to observe the income for the entire year, of a small farmer, an elderly man who died recently. The total income from the farm estate was something in the neighborhood of $26,000, of which only $11,000 was crops; the balance was Federal payments. That man should have been out of farming 15 years ago. And he knew it.

This is the fallacy of mandatory programs.

Senator McConnell. Good example.

Senator Boren.

Senator Boren. I agree with what the chairman and all of you have said about mandatory programs. I would invite you to come at 11:50 if you are still in town. Senator Boschwitz and I are going to unveil a plan this afternoon which is a full production, market-oriented approach. I have been listening to your testimony and I think it is going to insist on every single point.

It does have a strong conservation component which will help get some of these areas out of production. There are many members of this committee that have joined an alliance of trying to do something about it, telling them to put the subsidy in the Defense Department; that seems to be a good place to get money.

Johnny Carson said the farmers ought to bring their pitchforks to Washington and sell them to the Government for $25,000 each. Both sides will think they have a good deal. Maybe that is the answer.

We would also use an export bonus for use of excess stocks and a number of other elements that you talked about.

One of the things we are concerned about though is, as we call it now, a transition payment. I think that is a more accurate reflection, even as a maintenance of a target price system.

How do you make this adjustment? We have a very difficult situation. Those from the middle part of the country particularly know we have had land value erode 60 percent. So the farmers do not even own anything. At the end of one's retirement, now he has lost, through no fault of his own, the value of his life's work. And the farmer who has never missed a payment, who is efficient, now has the bank coming to him saying he has insufficient collateral. No more goes on the market; we have lost 1 percent of the farmers.

So we are very worried about projects. We can lose 8 or 9 percent in 1 year. You have to approach it from the point of view of equity protection. I do not happen to agree that the administration did the right thing for the credit process, but I think we need restructuring. I think we have to have equity protection.

It's a little different in Virginia than it is in the middle part of the country where you have just absolute collapse of land value, too much for us to be able to sustain.

We have overvalued dollars, I agree with that. We have to go and get this budget changed. That is the No. 1 point in any farm program.

But there is going to be a transition period. Let us say we allow rates to float down where they are at real market prices. I think we would have to do that to seize our markets back again. We have sat here for years, cut back our own production, sent a signal to the rest of the world that we were going to bear the burden, and let them all increase their production. It has been a vendor, in advance.

That is the reason I think we have to have full production. But we also have to realize if that happens for 1 or 2 years, we are going to see great growth in our exports as a result of our competition.

But the farmers in places like Kansas and Oklahoma are terribly hard pressed and obviously cannot absorb a further reduction in their income right now. Ours averaged $14 last year. We cannot go much below that.

The USDA came out with reports saying that 65 percent of $214 billion of farm debt would be farmers leveraged 70 percent or more next year. That means that while moving to this kind of full production, market-oriented program, we cannot really allow net incomes to fall any more during this transition period and avoid a very serious snap that will impact on all of you as well as the whole sector.

I guess the transition payment mechanism is the most difficult part of this to come up with.

Would you target the aid in anyway? For example, we have maximum payments in some of our programs. Or do you think we should have a sliding scale?

I would be interested in your ideas. There seems to be a need for some sort of targeting.

Would you favor a transition payment to be aimed at per farm units or per bushels? What ideas might you have as to how we should go through this transition period and make sure we do not have a sharp drop?

I think a year from now we will be far better off. The process will be rebounding, our farm income will go up, and the Government role will be greatly diminished. But how do we get through this first 2 or 3 years with an adequate transition support program for the farmers to keep them from collapsing?

Mr. JOHNSON. Obviously, that is an excellent question because we could win the balance and lose the whole fortune. We do not have any customers left if the farmers are bankrupt. It is a good question.

I think that there obviously needs to be some recognition that a transition must be made. And, of course, that is the reason—we would suggest just liberating the current program. I think for some period of time we should have the funds to be able to do that.

The budget compromise, which I read last night in some summary—which I had a little difficulty trying to comprehend, but I did understand there has been a compromise to the budget deficit reduction.

But in any event, it looked to me like we had some kind of baseline budget of say some $64 million over a 3-year period. And that somehow we could get by with $35 million, so they are cutting out $18 billion. That is the kind of arithmetic that I have a hard time understanding.

Senator BOREN. You are quite right.

Mr. JOHNSON. The transition period that you are talking about, however, I think it is affordable. After all, the budget reduction compromise would suggest a budget that is going to be somewhere in the neighborhood of $35 billion, which is something between $10 and $12 billion per year. That compares to what I understand we were spending, $3 or $4 billion several years ago.

So let me say that I believe the funds in fact in this compromise if this were to hold up, I think the funds would be available in which we do have some of the interim transfer that we feel is important to some very good operators.

At the same time, however, I think the funds would be available to begin this program of trying to develop and accentuate a need for additional demand. I think that has to be a part of the budget, there has to be some transition to prevent our agriculture from being absolutely idiotic so we can reemploy resources that we have in our program that will accomplish the objectives we are suggesting and perhaps accommodate the problems that you and I are talking about.

I have not given you a definite how this can be done. I have tried to outline what I see as the funds being available.

Senator McConnell. Well, the transition plus the promotion of exports. We have more farm bills this year than Carter has little liver pills. We are all interested in commodity bonuses and trying to improve our export market.

But I think how to phase this transition is a critical question that the Senator asked you.

Unfortunately I am not going to be able to stay long to listen to this. I think Senator Boren is going to leave too. The hearing is going to continue. I want to apologize to you for having to leave. We appreciate what you had to say.

Mr. Armfield. One second. I will throw out something for what it is worth.

There needs to be some type of an interim safety net for the farmer. You figure out how to structure that, and you have the ball game won.

Senator Boren. Let us say you have $12 billion or $14 billion, whatever the figure was next year to work on a transition payment. Now, how would you do it? Would you look at a payment of so much per farm unit on a sliding scale, historic production levels, or something like that, and do it that way? Or would you look at what they call a sliding scale target?

They really have the same effect. Whichever way you do it, it is really aid to the farmer rather than aid to the commodity that you are trying to get, as I said awhile ago.

Let us say the world price of wheat dropped to $2.40 in the immediate period when you had full production. Obviously if you had a 50-cent payment per bushel, that is not going to be enough to keep any family farmer more efficient in the Midwest or Southwest in business. And if you had so many dollars, and you had to spread them to all the farmers equally, you could end up with a very diminished payment.

On the other hand, you could look at it differently. Instead of a sliding scale target, per bushel, it would be a $2 payment sliding on down. When you get up top you are really at the free market. If you are not able to cover your cost of production after bushels you produce, then that is a decision you make on a business basis.

I look at it as possibly better, in that it would allow shifting from one crop to another. We do not now give the flexibility to the individual farmer to make his own decisions about what he plants and how much and modifying his crop rates, et cetera.

It seems to me that we have all these well-educated farmers out here who know so much more about agricultural economics and business management than many of the people making program decisions. They ought to be able to have some initiatives to make those decisions.

Mr. Johnson. Senator Helm's bill includes a provision, it seems to me that for the cap on the program it would be a cap on a basis of some type of average. Maybe that would be a better approach. I mean after all what we are saying is we are going to provide some kind of assured income. Maybe it should be directed rather than associated.

Senator **Boren**. But it is direct on the income looking at past history and income levels and making up a higher proportion of the first amount of income than you do as it goes up.

Mr. **Armfield**. I was just shown Senator Kassebaum's proposal. She seemed to have a reasonable approach, you might check with her.

Senator **Boren**. We appreciate your being here. I apologize for having to leave. Who from the staff is going to come up and sit in? We didn't have any coordination with that from anyone.

I am sorry to those who are going to follow. Let me assure you that we will read the testimony. The testimony is going to be entered into the record, it is just one of these situations where I have to go off now to another agricultural function.

But you made an excellent contribution. I think in light of the PIK Program, I often say I think if we sat down and devised a program that could cost the taxpayers the maximum amount of money, leave the maximum number of farmers in bankruptcy and cause serious economic problems for all the related businesses in this country like yours, I do not believe we could have done a more creatively brilliant job of it.

Obviously it needs to be changed. I think that it is very healthy that you bring the sensitivities from the agribusiness portion to this committee. We are going to try to write an agricultural bill and one that looks at the whole sector, not just those who are on the farms themselves. So we appreciate very much your participation.

Mr. **Campbell**. Our next witness is Harvey Alter, manager, resources policy department, U.S. Chamber of Commerce of the United States, accompanied by Stuart Hardy, manager, food and agriculture policy, U.S. Chamber of Commerce.

Briefly, I would like to discuss with witnesses our unusual situation. Agriculture's No. 1 problem is high interest rates caused in large measure by the Federal deficit. Senators on both sides of the aisle are being called away for caucuses with their respective parties to discuss that issue and how to proceed with the budget process.

Given the problem that no Senators are able to be here, you folks are more than welcome to go ahead and give your testimony orally and submit it for the record as well, or you would be welcome to come back on April 25 for a catchup hearing. Whatever you would like to do would be fine.

Mr. **Alter**. As planned, we will present now for the record and, if I may, supplement it.

Mr. **Campbell**. That would be fine.

STATEMENT OF DR. HARVEY ALTER, MANAGER, RESOURCES POLICY DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY DR. STUART B. HARDY, MANAGER, FOOD AND AGRICULTURE POLICY

Mr. ALTER. Thank you. I am Harvey Alter, manager of resources policy department. This is Dr. Hardy who manages our food and agriculture policy activities.

As I indicated, I would like to summarize our testimony now and submit a statement for the written record.[1]

The importance of the U.S. Chamber being here is that we are the largest business federation and represent all sectors of the food and agriculture industry, from the producers to retailers. Our position on the 1985 farm bill represents a broad consensus developed over many months with substantial grassroots involvement of these very many sectors.

The goal of our position is to achieve sustained profitability for farmer-businessmen, hence benefits to consumers. It is worth repeating that profitability assures continuity, the ability to respond to new markets while benefiting the growth of the community, and needless to say the whole country.

The Chamber is acutely aware of the economic difficulties facing producers today. This committee and the Nation have heard about low income, high indebtedness, recession in the rural communities, and recession, as we just heard, among input suppliers. We view the urgency of a new farm bill to address these and, moreover, the long-term challenge that it does not happen again.

It is repetitious to discuss the history of farm legislation going back decades. I think that alone is an indication of changes needed. I hope that this year we will see that change.

During the past year a large number of farm policy studies from scholarly institutions have been published, certainly two excellent committee publications from this committee. They represent a large spectrum of political philosophy. But as we read them, we find some points of agreement emerge briefly:

The first point of agreement certainly seems to be farm benefits should be targeted to full-time producers whose incomes are derived mostly, or entirely, from the farm. That point of agreement may be an answer to Senator Boren's question a few moments ago.

The second point of agreement is that commodity price regulation is obviously not an efficient method of maintaining farm income.

Third, export promotion could be more effective if intermediate farm credits were made available on a multiyear basis.

And the fourth, aspects of the current program create a price umbrella over world commodity markets. As an important aside, the U.S. Chamber provides a Secretariat for a virtually annual meeting between producers from the United States and the European Community. And one clear message from our European friends and competitors is that they much appreciate the U.S. system of assuring their welfare.

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[1] See p. 777 for the prepared statement of Mr. Alter.

These points of agreement helped shape and fashion the Chamber's recommendations. Our recommendations deal only with the major commodities and the export programs. I would like to just touch on them briefly. Within our testimony, and a supplement to that testimony, is our full rationale for these recommendations.

Our first recommendation is that nonrecourse commodity loan rates need to be determined by some sort of a flexibile market price based formula. These loans must be continued. However, inflexible rates, as we now have, and which are above market levels, merely stimulate excess production.

Second, the target price system has to be phased out, as we just heard from Mr. Johnson and the other witnesses. Some alternative system is needed to avoid interference with what Senator Boren was talking about—the ability of the farmer to make their own business decisions.

These businesses are expensive, we need not dwell on that. And we need not dwell on the fact that deficiency payments largely go to those who need them least. Defficiency payments are certainly not market neutral.

These points are worth repeating, and have been repeated for years. It is time for change. The old programs are not working, a point nobody seems to disagree on.

Our third recommendation is that the farmer-owned reserve, whereas a useful marketing tool, and cost effective, ought to be limited, simplified, and not used to manipulate prices.

Four, we oppose supply management programs. We regard them as self-defeating in a global market. They have not assured the profitability of the farmers; they ought to be abandoned. Many people have said such, including the witnesses before me.

Fifth, the present and gradual ratcheting down of the dairy program appears to be working, it is bringing supply in balance with demand, and ought to be continued. We have finally found something that appears to work.

Our final recommendation is export efforts. What we suggest as the way these can be strengthened and be directed is perhaps by, as you might imagine, a ladder of food aid and of export credit programs. At the base Public Law 480; futher up export credits for developing countries which are beyond Public Law 480 but which can not meet stringent commercial terms.

At the top of the ladder should be short term credits on a multiyear basis. We think these would improve export opportunties among the more developed nations.

The Congress might also consider the Grace Commission recommendation that credit guarantees be made transferable.

In the analogy of the ladder, it is easy to imagine importing nations moving up gradually as their ability to meet commercial terms improves. Food assistance and export market development provides humanitarian benefits. It should not be used to achieve domestic or international policy goals unrelated to food aid or export market development.

Cargo preference restrictions should be eliminated. U.S. programs should not be used to subsidize the development of processing and other facilities which directly compete with U.S. firms because that merely displaces value-added export products.

We note the budget compromise in the Senate could accomplish these goals. We certainly look forward to these points all coming together.

We also have to recognize that after so many decades of strict farm programs, Government now has an obligation to bring about structural reform in a humanitarian way and a phased way. We think Congress and the administration should, therefore, consider the development of some sort of safety net measures to accompany reforms.

In our written statement, we have some examples. Rather than give these now, I would like to briefly go quickly to four criteria we think such programs must meet.

First, obviously their cost should be less than the programs they replace.

Second, they should have a termination date, some period after which they will no longer be needed because they are temporary and are phased out.

Three, they should include some sort of means test to assure that benefits are directed to those in need. We are not advocating poverty oaths for farmers.

Four, they should separate income maintenance from price supports. I believe that what Senator Boren was getting to, is that separation.

Thinking about all this, we can summarize our entire position by saying we should not kick the farmer while he is down. But, Government should also take their foot off his chest and let him stand up and help himself as a businessman.

Thank you very much.

Mr. Campbell. Thank you Mr. Alter for an excellent statement.

I know that the Senators are very aware that the Chamber of Commerce is probably more involved in the 1985 farm bill than you have been for a long time and appreciate the input, not only on a national level, but on local levels as well. It appears that there is a consensus emerging about the failures of past policy and what we need to do to correct the situation.

The question is, as you just said, how do we get from point A to point B?

Mr. Alter. If I might add something in that regard. I would like to make a recommendation to the Senators and the staff. I have begun to read Clarence Palmby's book, "Made in Washington." He has a bit of farm policy history in there. Whether or not you agree with him there is a bit of history that is worth reading. What we are talking about today was covered in his career in Washington, from President Eisenhower, to President Ford, and beyond. He served as the chairman of our Food and Agriculture Committee for several years.

He points out that recommendations of today for more market-oriented agriculture were made by the National Advisory Commission on Food and Fiber in 1967. We are repeating history. Let us not make the same mistakes again.

Mr. Campbell. Thank you.

Mr. Alter. Thank you.

Mr. CAMPBELL. Our next panel is Warren Lebeck, representing the National Grain Trade Council, and Dean Webster, chairman of the American Feed Industry Association.

Mr. Lebeck is not here. So go ahead, Mr. Webster.

STATEMENT OF DEAN R. WEBSTER, CHAIRMAN, AMERICAN FEED INDUSTRY ASSOCIATION, INC., ARLINGTON, VA

Mr. WEBSTER. I appreciate the opportunity to testify today. My name is Dean Webster, president of the H.K. Webster Co., in Lawrence, MA, feed manufacturers who serve the New England and New York State area. And we have been in business since 1868 as a family-owned and operated company. And with my cousin, Kingman Webster, we are fourth generation representatives of a family who are currently in management.

I am here today representing the American Feed Industry Association as its chairman this year.

AFIA is the national trade association representing manufacturers of over 70 percent of the primary formula live stock and poultry feed sold each year in the United States. Our industry annually buys $10 to $15 billion in feed ingredients, mostly grain and byproducts that makes the feed industry the largest domestic user of grain.

By the way, I have a full statement here. This is sort of a capsule of that.[1]

Mr. CAMPBELL. Your full statement will be entered in the record.

Mr. WEBSTER. AFIA policy objectives are a result of more than a year of discussions within our membership. At the heart of our farm policy objectives is the realization that over the long run, current farm programs, as has been said so much earlier in the testimony, they are not in the best interests of agriculture producers, consumers, or the Nation's taxpayers.

We support a market oriented farm economy with a safety net approach to protect producers from extremely low prices. The Government farm program should not artificially encourage production at home or abroad. Federal farm policy should aggressively work to return the United States to its position as a reliable agricultural supplier on the world markets.

We would suggest the following goals for a flexible internationally oriented farm policy. And a number of these have already been advocated by others. But I would like to summarize our position.

First, on exports, the United States must regain its role as a reliable supplier of agricultural products to world markets. This reliability must extend beyond periods of domestic surplus. We support additional Federal efforts to increase exports of animal products while reducing artificial trade barriers overseas to the import of U.S. products. Agriculture products should be exempt from any future embargoes.

On target prices, target prices for wheat, corn, feed grains, rice, and cotton should be replaced with a system of income maintenance for smaller farms, especially designed to avoid any disruption of market forces.

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[1] See p. 792 for the prepared statement of Mr. Webster.

As has been said before, we recognize a transition period is necessary with target prices set at progressively lower levels year by year until they are phased out completely. Nonrecourse loans, the Nonrecourse Federal Loan Program, should be replaced by a flexible market based formula.

While these loan programs for corn, wheat, feed grains, and rice are valuable risk management tools for farmers, inflexible loan rates set by law above market clearing levels stimulate overproduction and place the United States at a competitive disadvantage in export markets, and eventually force disruptive acreage reduction programs.

On the dairy program, the Secretary of Agriculture's authority to adjust dairy's support price levels periodically based on Government purchases should be extended beyond the September 30, 1985 expiration date. The periodic adjustment of the dairy support price is the only fair and effective way to bring supply back into balance with demand and to maintain that balance.

On the farmer owned reserve, farmer owned reserve should be capped, its mechanism simplified, and it should be isolated from policy decisions that manipulate domestic and export prices.

On supply control, as has been said earlier, I will join the others in saying that crop production controls should be eliminated. A transitional period during the next few years is probably necessary to achieve this goal. We support a long range conservation program, aimed at retiring the Nation's most fragile lands. And we also support a domestic livestock and poultry industry that is free of production and marketing controls.

On credit, one of the most pressing credit issues facing the feed industry is that of double jeopardy, the risk of paying twice for the grain we buy. This occurs because of the so-called farm products exception in the Uniform Commercial Code. The law today says that if a farmer defaults on a loan for which he has pledged his crop for collateral, the lender can legally force the innocent buyer to make good on the farmer's loan even if the buyer has already paid the farmer for the goods.

AFIA and 18 other national agricultural groups strongly urge this committee to support Senator Cochran's bill, S. 744, which addresses this issue and would solve the problem for the buyers of farm products.

And I too would like to comment on the essential need to attack the deficit. Not even the best designed policy reforms will really mean much unless the Congress and the administration recognize that inherent in the health of U.S. agriculture is a sound national economy. This means reduced Federal deficits which will lead to lower interest rates and continued lower inflation.

The AFIA urges the members of this committee as well as their colleagues in the Congress and administration to take immediate action aimed at sharply reducing the Federal deficit. Every segment of Federal expenditure should be seriously considered for possible reduction. As long as such pending reductions are equitable, we feel the majority of the U.S. citizens will support such an effort.

Let me just say that our association is still reviewing Senator Helm's bill, as well as the administration bill and other alternative plans which would include Senator Boren's when that is released.

We would hope to have more specific recommendations on its provisions at a later date.

But we just want to again reiterate that we support the market oriented direction in which all of these measures seem to be moving.

And with that, gentlemen, I would just say thank you again on behalf of the American Feed Industry Association for the opportunity to testify today. We are ready to work with the committee in any way we can to help move in this direction.

Mr. **Campbell**. Thank you, Mr. Webster. Speaking for Chairman Helms, we appreciate the kind remarks about the chairman's bill and look forward to your continued participation in this debate.

Our ranking minority member, Senator Zorinsky from Nebraska, has arrived. I am sure he would like to take over the hearing at this point.

Senator **Zorinsky**. That is all right. I have an appointment, I have to go to very shortly.

But I just want to apologize for the chairman and myself. We were involved in a meeting with the president of Algeria. I am sure Senator Helms and myself would have liked to have been here throughout the testimony that you gave. I apologize for not being here.

Mr. **Webster**. We understand, Senator.

Senator **Zorinsky**. I appreciate the fact you took the time to come here and testify on the agricultural situation and to make comments on the various farm bills.

Mr. **Webster**. If I may, Senator, I might comment on the fact that our association, which is 76 years old, prior to this time did not take any position in any year on farm bills. But we felt that it was so vitally important this year that we get a change in direction, in the direction of market orientation, that we have taken an active role and anticipate continuing to do so.

Senator **Zorinsky**. Thank you. I have no questions.

Mr. **Campbell**. Did you have a statement for the record?

Senator **Zorinsky**. Yes; in the interest of time, I will have it placed in the record.[1]

Mr. **Campbell**. We will do that. Thank you very much.

Our next witness is Sherwin Gardner, vice president for science and technology, Grocery Manufacturers of America. Mr. Gardner.

Mr. **Gardner**. I am here.

Mr. **Campbell**. Again, if you desire, you are welcome to come back on the 25th, or go ahead now, whatever you wish.

STATEMENT OF SHERWIN GARDNER, VICE PRESIDENT FOR SCIENCE AND TECHNOLOGY, GROCERY MANUFACTURERS OF AMERICA, INC.

Mr. **Gardner**. I think in the interest of time for the committee, we will go ahead this morning. I understand the pressures of time on the Senate, and I think it would be helpful to let me complete the statement.

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[1] See p. 765 for the prepared statement of Senator Zorinsky.

And again in that same interest if our complete statement can be entered in the record, I will summarize for you.[1]

I am Sherwin Gardner, vice president for science and technology of the Grocery Manufacturers of America.

GMA is a 75-year-old national trade association, and our membership is comprised of over 130 companies which manufacture food and nonfood products sold in retail grocery stores throughout the United States. Our companies employ over 2½ million people nationwide and have total annual sales in excess of $250 billion.

We appreciate the opportunity to appear before the committee to discuss the need to acquire national uniformity in tolerances for pesticide residues in food, both in raw agricultural commodities and in manufactured products. We believe it is a matter of great importance to agricultural producers as well as food manufacturers.

A national uniformity requirement is needed because virtually every State has one or more laws regulating the safety of pesticides in food and repeated attempts to achieve national uniform enforcement of these laws has been unsuccessful.

Pesticides are critically important to food production in this country. And our nationwide food production and marketing system depends upon uniformity in their regulation. We are asking the committee to consider this matter now because of the recent experience arising from the use of the pesticide ethylene dibromide.

The State of Florida in December 1983, because of safety concerns of consumer exposure to EDB, took unilateral action against any food product that contained any measurable amount of EDB. About 2 months after Florida's action, the Environmental Protection Administration established new safety standards for raw grain and for intermediate products and for ready to eat foods.

In the judgment of a large number of independent scientists, these standards established by EPA provided a wide margin of safety to the public. Notwithstanding strong Federal action and a determined effort by industry to meet or exceed Federal tolerances, several States, including Massachusetts, New York, Maine, Texas, New Jersey, and California each adopted different standards.

These standards, which in some cases were impossible to meet, did not provide the public with any additional health protection. And for the first time in modern history of Federal regulation for the Nation's food supply, States abandoned the Federal safety standard for commodities and foods that are marketed throughout the country. So the food growers, processors, and manufacturers had to deal with inconsistent Federal standards affecting the marketing of grains and products manufactured from that grain.

Compliance with different and inconsistent standards is difficult and impossible to do for the food industry, which is after all national in scope. Given a grain, for example, that is grown in one State, stored in another, and produced in a third, and sent for distribution in a fourth State and sold to consumers in half a dozen States nearby, it simply is not feasible for a manufacturer to prepare one batch of food to meet the standards of one State and another batch for a different standard in another State.

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[1] See p. 794 for the prepared statement of Mr. Gardner.

In the same way it is not feasible for a grower to set aside one part of his crop for sale in one State and another section for another State.

Action by States to set different standards also creates confusion in international markets. The Soviet Union, for example, expressed concern over the varied EDB actions to U.S. wheat exporters. As a result they agreed to accept grain that did not have residue levels greater than those set by EPA.

The EDB episode should not be viewed as an exception. EPA now is reviewing approximately 300 feed-use chemicals and the thousands of tolerances that are related to those uses. As decisions are reached by EPA, there should be assurance that major distributions in food production and marketing will not occur.

A national uniformity requirement on pesticide residues in food would avoid such disruption in agricultural and food production while still affording a high standard of protection to the health and safety of consumers. As we visualize it, legislation should be sharply focused on residue tolerances. It should preclude any State or locality from enforcing any standards if those standards are within the scope of Federal law and if the State or local standard is in addition to Federal law.

In addition, legislation could also authorize States to petition the Federal Government for an exemption from any Federal standard based upon specific criteria, including the showing of compelling or unique local circumstances.

It is important to emphasize that such a national uniformity requirement should not affect the right of States to regulate the use of pesticides as they currently do. Neither should it pertain in any way to the registration of pesticides. Nor should it pertain to the application of pesticides. The law with respect to registration and application should remain unchanged by this measure.

All that would be covered is tolerance levels pertaining to pesticide residues in food. We believe the development and promulgation of safety standards for pesticide residues in food nationally produced and marketed is properly a matter for the Federal Government.

According to the Department of Agriculture, in 1983, 47 of 50 States produced principal crops valued at over $68 million; 25 percent of this agricultural produce moved to the export market. A significant portion of the remaining 75 percent was transported to more than 21,000 domestic food manufacturers and processors. These companies processed and sold in 1980, domestically and abroad, more than 338 billion packaged units of food valued at nearly $250 billion.

These hundreds of billions of food items have an important component. Their wholesomeness and safety are evaluated, regulated, and closely monitored by the Federal Government. For manufacturers to supply safe, wholesome foods at reasonable price levels to consumers across the country, EPA and FDA must be able to establish and enforce a single safety standard of pesticide residues that are found in food.

The statement we are submitting to the committee describes the legislative and regulatory history relating to the control of pesticide residues and also includes a description of a legislative approach.

In concluding we would like the committee to know that other groups are supportive of national uniformity. The Administrative Conference of the United States in September of 1984 recommended that Congress and Federal agencies directly address the problem of national uniformity in order to protect nationwide interests. The Association of Food & Drug Officials at its meeting in June of 1984 adopted a recommendation from a committee on uniformity to develop specific areas of regulations or national uniformity requirements would be endorsed including pesticide residues.

Finally, we have received support from a number of State food and agricultural organizations for national uniformity requirements for pesticide residues.

That concludes my statement. Again we appreciate the opportunity to present it this morning.

Mr. **Campbell**. Thank you, Mr. Gardner. One question on behalf of Senator Helms. In the 98th Congress the Federal Insecticide, Fungicide, and Rodenticide Act was debated. Was the uniformity issue part of that debate?

Mr. **Gardner**. The uniformity issue that I am describing was not part of that debate. There were other aspects of the FIFRA that may have involved uniformity. But as I discussed, we are not proposing that those aspects be dealt with under uniformity. Our target, or what we are suggesting as a target, is a very narrow area of pesticide residues in food. And that was not part of the FIFRA discussions.

Mr. **Campbell**. Would that be a proper place for this type of legislative issue?

Mr. **Gardner**. We think not. We think that the economic aspects and concern over marketing properly puts that subject before this committee.

Mr. **Campbell**. Thank you very much.

The next witness is Charles R. Botticelli.

Mr. **Botticelli**. We would like to reserve submission of our written statement and oral testimony until April 25.

Mr. **Campbell**. Mr. Flaat representing the Agribusiness committee, Grand Forks Chamber of Commerce, Grand Forks, ND.

It is a pleasure to have you with us. I know you have come a long way. I hope you will understand our circumstances.

Know that your remarks will be made a part of the official record, which probably reaches more people than the number actually here listening to the hearings.

STATEMENT OF LOWELL FLAAT, AGRIBUSINESS COMMITTEE, GRAND FORKS CHAMBER OF COMMERCE, GRAND FORKS, ND

Mr. **Flaat**. I have a written testimony we would like to submit as part of the record and also summarize the testimony.[1]

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[1] See p. 801 for the prepared statement of Mr. Flaat.

missions. Prior experience included five years as Launch Operations Engineer with General Dynamics Corporation and Flight Test Engineer with the Westinghouse Electric Corporation. B.S.A.E., Pennsylvania State University.

Herbert F. Balzuweit, Vice President, Finance and Administration. Prior to joining the Company in 1984, he spent eight years with GTE Corporation in various positions of increasing responsibilities, both domestic and abroad. During the last four years at GTE, Mr. Balzuweit was Vice President, Controller of GTE Telenet Communications Corporation. Prior to joining GTE Corporation, he was associated with Arthur Andersen & Company for 8 years, responsible for audit of companies ranging from small start-up ventures to large, multi-national corporations. He left as an Audit Manager to join GTE Corporation. He is a Certified Public Accountant. B.B.A., City University of New York.

Jack W. Pinto, Vice President, Marketing. Mr. Pinto has 30 years of engineering and marketing aerospace experience and was with IBM Corporation for 23 years. Most recently he served as Director of Marketing, Owego Operations, where he was responsible for $600 million in annual sales for the 5,000-man facility. Having extensive experience working with NASA, the Air Force, and the Navy, Mr. Pinto was manager of the Field Marketing Offices for the Federal Systems Division of IBM. Prior marketing management assignments included Space Programs, NASA Programs, Ship Systems Programs, and Western Region Field Marketing. Program Involvement included Space Shuttle, Space Telescope, HH-60D Avionics and LAMPS integration. He has a B.M.E., Rensselaer Polytechnic Institute.

FULL COST RECOVERY

The Presidential Policy on commercialization of ELV's preceded our agreement by exactly one year - 16 May 1983. This policy specifically addressed the U.S. Government's desire to

> "ensure a flexible and robust U.S launch posture to maintain space transportation leadership"

and to

> "encourage the U.S. private sector development of commercial launch operations."

Further, it stated that

> "the U.S. Government fully endorses and will facilitate the commercialization of U.S. Expendable Launch Vehicles."

Under the section entitled Relationship of STS and Commercial ELV's the policy stated that

> "through FY 1988, the price for STS flights will be maintained in accordance with the currently established NASA pricing policies in order to provide market stability and assure fair competition. Beyond this period, it is the U.S. Government's intent to establish a full cost recovery policy for commercial and foreign STS flight operations."

Full cost recovery for STS pricing is certainly consistent with the goals of the overall policy to establish a commercial launch vehicle industry in the United States. A commercial industry cannot exist if it has Government competition that does not face the same economic world. The $87 Million STS price in 1982 dollars recommended by NASA to the President on 17 September 1984, for FY '89, '90, and '91 falls substantially short of full-cost-recovery as the term is known in that economic world. Indeed, given the apparent NASA definition, no rational businessman would decide to enter the industry.

If it is left to stand, the $87 Million "full-cost-recovery" price for STS recommended by NASA would cause the emerging non-shuttle dependent expendable launch vehicle industry to fail. If TCI were to fail for this reason, the millions of dollars of investor capital that has sustained us thus far would have been lost without the company ever having had a chance to succeed in the marketplace.

The extent of the deviations from full cost can be demonstrated easily. Please examine the chart we have prepared. A more detailed copy of the chart is attached for the record. All of the amounts on the chart are in 1982 dollars and are per unit numbers with the unit being one STS payload bay. We used the data in the NASA recommendation to the President as a baseline and adjusted it for known omissions that could be readily quantified. Column 1 is hardware cost and Column 2 is the per unit operations budget. Column 3 is NASA's recommended flight rates per year. Based upon NASA's past accomplishments and facilities limitations Column 4 is the rate we believe NASA may achieve on the high side. Column 5 is the sum of Columns

1 and 2 and, in the three years bounded by the horizontal lines, is NASA's recommended payload bay calculation for FY '89, '90, and '91 of $83.9, $83.6, and $82.5 Million which the agency adjusted up to an average of $87 Million. Column 6 applies our correction for the lower flight rate which we calculated by taking Column 1 and adding to that the sum of Column 2 times Column 3, divided by Column 4. Column 7 is orbiter amortization arrived at by assuming a low orbiter cost of $1.5 Billion, divided by the 100 flight design life per orbiter. An interesting sidelight of this is that if we amortize only 3 of the 4 orbiters in 1995, when it is estimated by NASA that the STS will be transitioned to the privte sector, there will remain a $2.25 Billion unamortized balance for orbiters alone that would have to be recovered in the commercialization process. Column 8 represents the cost of money computed at 10% per year for 10 years on the cost of 3 orbiters only. Column 9 is orbiter insurance computed at a very low figure of 2% of the replacement value of one orbiter. Column 10 is a correction of Column 1 hardware, labor only, for a more realistic labor learning curve of 93% rather than the 80 - 88% curves it appears NASA used. Column 11 is the sum of Columns 6 thru 10 which yields an average price of $188 million per payload bay. The expendable launch vehicle industry would be viable at $150 million payload bay price in 1982 dollars. The $188 million estimate still does not include many items because we had no way of determining the appropriate dollar amount to be added even though these

additions would represent substantial costs. It does not include:

- o Dollars for sustaining R&D or system upgrades,
- o Offset for taxes which commercial ELV's must pay,
- o Offset for return on investment which commercial ELV's must earn,
- o Facility or equipment cost included to make the higher flight rate,
- o Cost for NASA's commercial marketing effort.

In addition to the above, experience indicates that the operations base is over-optimistically calculated. The operations base (Col. 2 times Col. 3) in 1984 totals $1.1B for 8 flights. It is doubtful that the operations base can decrease in 1989 to approximately $.9B (Col. 2 times Col. 3) while tripling the flight rate to 24 launches per year.

If the United States Government is to be in competition with the commercial expendable launch vehicle industry, then the United States must charge commercial users all costs that commercial companies must charge. If this is not done, the United States will drive out of business the industry it has encouraged to develop. Certainly, a question to consider is whether or not it is in keeping with the economic objectives of a free economy to have Government compete with private industry at all?

ARIANE AND THE 301 FILING

Another factor in the expendable launch vehicle economic world is the foreign Government competition from the ESA nations Ariane System, led by the French. This system has maintained a two tier pricing structure for the same service wherein they charge ESA nations a much higher price than launches sold in the United States and outside the ESA nations. This has been freely admitted by Mr. F. d'Allest, Chairman of Arianespace S.A. and Director General of CNES at the Satellite Summit Conference held at the Watergate Hotel, here in Washington, D.C. on 7 December 1982 when he said,

> "(We) asked our European member states in ESA to support Ariane sales during the first three years through a price differential of 25 percent. That means that European payloads are paying during the first three years of the STS pricing policy some 25 percent more than the export sales to help us to balance a bit this subsidy."

The fact that he said, to help balance a "bit" this subsidy would lead one to believe that the subsidy was much greater than 25 percent.

On February 25, 1982, in a statement before the Senate Subcommittee on Science, Technology and Space, he made much the same statement, putting the blame for the subsidy on NASA. At that time he testified:

> "When establishing ARIANESPACE we succeeded in convincing ESA and its member States that the STS pricing policy during the first three years of its operations involved a huge subsidy, thus creating an unfair competition. In response it was agreed that for the European payloads launched before mid-1986 the standard price negotiated with ESA and

> specified in the ESA/ARIANESPACE Convention would include a 25% extra charge to support the company. We consider, and I hope you will consider that these practices are not very sound, as they charge the research and development programs on both sides of the Atlantic, instead of charging the users who reportedly look to gain great financial profit from their commercial applications. We permit ourselves to underline the fact that the orbiters' production costs should also be fully charged to the customers, with the related cost of money. As long as the STS production and operations costs do not reflect realistically the STS pricing policy we shall claim some support through the European payloads launch prices, to ESA and its member States."

We have found that since Transpace Carriers entered the marketplace, Ariane has been subsidizing prices to an even greater extent. Before TCI, Ariane charged a subsidized price of about $25 million per Delta class payload outside the ESA nations and about $32 million to the ESA nations. We have now seen prices in the $19-20 million range outside the ESA nations.

On May 25, 1984, we submitted a petition to the United States Trade Representative seeking Presidential action under Section 301 of the Trade Act of 1974 to bring to an end the ESA nations subsidy of the Ariane system. Our petition was accepted by the Trade Representative on July 9, 1984, and the process is underway. To date, there have been two consultations with the ESA nations who have as a member of their 301 delegation France's Mr. d'Allest. The third consultation is currently in session, and by law, the entire process must be completed on or before July 11, 1985. During these consultations, it is our understanding the ESA nations have reiterated their position that they would like to end their subsidy if NASA would go to a commercial full cost recovery price for the STS proceedings. It is possible that resolution of the issue could come quickly at a price level which would be conducive to U.S. commercial expendable launch vehicle viability if both the Ariane and STS prices could be addressed in the 301 forum.

Such a result would be beneficial to the United States. Atlas Centaur and Delta Expendable Launch Vehicles would survive in the commercial arena, maintaining for the United States two systems of unparalleled reliability which complement each other. In addition to the commercial market anticipated, these systems could be used by the U.S. to fly government payloads during times of emergency and to alleviate any potential STS schedule problems that might result from increased commercially oriented research and development payloads of value to the United States and mankind. It would signal a skeptical financial world that the United States is serious about providing commercial opportunities in space whenever possible. It would maintain, and set the ground work for, expansions and improvements of an established ELV technological base including people, facilities, and hardware, and it would maintain U.S. leadership in space across the broadest front.

We have had many written expressions of support for our 301 petition from members of Congress as well as industry and industry associations.

TCI STATUS

We have negotiated major hardware supplier contracts with McDonnell Douglas, for the core vehicle and systems integration, and with Morton Thiokol, for the Castor solid rocket motor strap-on boosters. We are in the final stages of completing our negotiation with Rockwell Corporation for the 1st stage liquid engines. We are working with First Boston Corporation who has agreed to raise the substantial capital required to start and sustain the production activity until cash flow from sales can sustain it. Success in the financial market is heavily dependent on unsubsidized government competition.

In addition to First Boston Corporation's activities, Bank of America has agreed to a $15,000,000 line of credit for TCI against contracts. Bank of America is willing to provide a $35,000,000 customer financing package wherein a credit worthy customer can finance his launch on a seven year program with payments deferred to the last five years.

TCI strongly believes that full commercial cost recovery is the only economically sound policy for a free market nation to follow. We believe the arguments advanced for continuing less than full cost recovery STS prices are not sound.

ALLEGATIONS AND COUNTER ARGUMENTS

Some allege that Delta is old technology. In fact, the U.S. ELVs have been consistently upgraded and enhanced by NASA in order to assure the use of state of the art technology in launch systems and ground systems. This technology and program knowhow have been the reason for Delta's continued, unparalleled success. An outstanding example of Delta contemporary technology is the skin structure which achieves very high structural efficiency resulting in much lower weight than the Ariane ELV. Also, the guidance system is new, highly accurate, and unsurpassed in efficiency and reliability for the launch missions it serves. The engines also are the beneficiaries of not only the man-rated Saturn program and the TITAN program, but also have achieved extensive flights on the Delta and Atlas programs.

It has been alleged that the market is too small to support commercial ELVs and the space shuttle. TCI strongly disagrees and believes that the opposite is true. Communications satellite usage worldwide is increasing, providing business opportunities for U.S. ELVs while the Space Shuttle will be the only manned reusable launch system to support the Space Station and most of the space industries which the Center for Space Policy quotes as exceeding $60 Billion in revenue by the year 2000. TCI estimates the commercial and foreign satellite market for the Delta payload class alone to be on average about 20 per year, not counting the European payloads committed to Ariane.

These numbers are supported by various studies including the Battelle Memorial Outside User's Payload Model prepared annually for NASA. NASA Customer Services, in contrast, has recently stated publicly that the market for domestic and foreign communications will flatten out by the end of this decade to 7 or 8 per year. Yet NASA's planning for 1990 and 1991 indicates that commercial and foreign satellites will occupy the equivalent of 4.2 STS cargo bays. Based on NASA's equivalency factor and planned market share of 75%, this represents a total commercial and foreign market of 28 equivalent Delta class payloads. In a paper presented by Hughes Aircraft to the World Telecommunications Forum in December 1983, it was indicated that there will be 33 foreign national communications satellites alone by October 1987. It was further stated that

> "The number of national systems is accelerating. They are doing so because they are an economical way to build long distance networks rapidly, both in developing nations and inaccessible regions of advanced nations."

In addition, new international and inter-regional communications will yield greater opportunity for the space launch vehicle industry. Meteorology and remote earth sensing will continue to expand as foreign countries become more space independent.

It has also been alleged that full cost will result in Ariane capturing the entire marketplace. This assumes that U.S. ELVs will not be competitive on a level playing field which the 301 proceeding is intended to obtain. In addition, Ariane may face operational limitations. Currently the Ariane 4 can only be launched from the second launch pad at Kourou, French Guiana.

With existing facilities, Arianespace claims that 12 per year can be achieved. This is highly doubtful since Delta, with a much smaller vehicle, two launch pads, and 25 years of launch experience reached a maximum of ten per year. Probably, a more important factor favoring U.S. ELVs is that their single payload, dedicated mission service provides high confidence of full insurability.

In short, Ariane is incapable of launching the entire commercial and foreign market. The presence of U.S. commercial ELVs in concert with the space shuttle will assure that Ariane will fall far short in achieving the market ascribed to them by those who advance this argument. American industry should not be sold short on its ability to compete effectively with its foreign counterparts if trade is conducted under the rules of the Trade Act of 1974.

Another alleged result of shuttle full cost recovery is that the high cost of launch will drive users from satellites to fiber optics systems. A recent Intelsat analysis indicates that in this wave of fiber optics popularity, satellites in addition to providing multipoint capability also provide on a per circuit basis a 30 to 70% cost savings compared to fiber optics. If the launch costs, for example, were to be doubled, and amortized over a ten year period, the resultant increase in transponder cost would be less than 10 percent, hardly enough to drive users from communication satellites.

Another argument often heard against full cost recovery is that it will cause potential space technology investors and developers to rethink these investments. TCI believes that R&D in space manufacturing and other commercially oriented experimentation should have low cost access to space. Mature industries such as space communications should not, and do not, require government subsidy to be profitable. Likewise, when space manufactured products become mature and commercially viable, they too should not require or expect subsidization in any form. The Presidential policy directs full cost recovery for only commercial and foreign STS flight operations and allows for subsidized prices for research and development activities. This was emphasized by the Science Advisor to the President in his October 15, 1984, letter in response to Senator Gorton's letter of August 31, 1984.

One last argument against full cost recovery often advanced is that it would make the upper stages deployed from the shuttle non-competitive. Upper stages are expendable vehicles used to deliver satellites from the shuttle's 160 mile orbit to a geostationary orbit 22,300 miles above the earth's equator. With ground launched ELVs, the upper stage is part of the launch vehicle.

There are several upper stages which are either operational or at some stage of development, most of which are cost effective for specific classes of spacecraft. No upper stage, however, should depend on a subsidy of its low earth orbit transportation in order to be economically viable. If such subsidy is allowed, it will place the non-shuttle dependent ELV industry at an unfair competitive position vis-a-vis the shuttle/ expendable upper stage combination. When Ariane and Shuttle price subsidies are removed, charging commercial full cost for Shuttle services would not affect expendable upper stage providers since they would compete on merits and costs of services they provide using Shuttle priced on a level playing field.

SUMMARY

In summary, Transpace Carriers, Inc. would like to compete in a free market economy consistent with the tradition of this nation. We entered this business relying on the STS going to full cost recovery in FY '89. We believed that the ESA nations were weary of their subsidy and would follow the STS price up. If they did not, we were prepared to file a 301 petition. We filed the petition earlier than we had originally anticipated because they drastically reduced their price coincident with our signed agreement with NASA to transition Delta to the private sector. The structure of the space launch industry providing transportation to the 22,300 mile transfer orbit now contains: (1) companies which are totally commercial, Transpace occurring in some areas. That is not the right way to do it, or the most effective way of doing it.

I think we still have a long way to go to deal with that particular issue, and need to look at other options before we approach it.

Senator ZORINSKY. The other side of that issue, I might remind you, Mr. Naylor, is the commitment made by this administration, based on the Senate Resolution 79 that was approved by the Senate. The Secretary of Agriculture personally said the administration would honor that commitment to provide as much loan guarantee authority as needed. You have to have the will to implement such a program. We can create the best program in the world, and if the administration does not want to implement it, it is going to be difficult to get the dollars out there.

So I would just hope that you seriously consider the commitment made by the administration to provide adequate funding and implement the other provisions of Senate Resolution 79.

Mr. NAYLOR. Senator, I appreciate that, and I assure you that the Secretary and the administration will fully meet our commitment on providing adequate operating credit, and indeed, have already provided transfers in excess of $900 million.

In your area, your region, we are looking at alltime records of credit assistance from the Farmers Home Administration, both in direct and guaranteed activity, and that guaranteed activity continues to grow. We made that commitment, we will honor it.

It is a record that I will certainly not be the least bit apologetic for, in any form. We have our people in that Midwest area who have done a very difficult and challenging task of working with the commercial banks and the Farm Credit System to get operating credit out there effectively, and they have, indeed, done so.

Senator ZORINSKY. All I can tell you is the banks keep going broke. They keep closing them up out there. That is a fact. There must be some reason. Clearly, additional assistance is needed.

Mr. NAYLOR. I think the problem is very serious, Senator, but I think the solution we all recognize is sound farm policy, and frankly, dealing with the deficit issue that our producers have been feeling the weight of in the form of high interest rates, and the impact on their trade ability. I think that is an issue all of us, certainly you and others, will be taking leadership roles in attempting to deal with.

Senator ZORINSKY. At 4 o'clock this afternoon I have called a meeting of our side on this committee to meet with the Secretary of Agriculture in here, so he can explain that farm policy to us that is so vital to the future of agriculture.

Madam Chairman, I have an opening statement that I would like to include in the record.[1]

Senator HAWKINS. So ordered.

Mr. NAYLOR. Thank you, Senator.

Senator HAWKINS. Mr. Naylor, as the administration's farm bill moves toward guaranteed loans, and away from direct lending, as a means of providing farmers access to credit, do you think that commercial lenders will work with FmHA, to provide credit to farmers.

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[1] See p. 804 for the prepared statement of Senator Zorinsky.

Mr. Naylor. Yes, indeed, I do. I think early on in this program we had some problems, back in the early seventies, when it first went on the books, and there were some good reasons, I think, the banks had for some reservations about starting into guaranteed on a broad basis.

I think we have worked with them diligently, and will continue to do so, to work some of the bugs out of the system. But I think the substantial increase in approved lenders, the substantial jump in the number of applications beginning to move through the system, many of them only submitted within the last couple of weeks, indicates indeed that as the banks become familiar with, and more comfortable with our system, and work with us to further improve it, we can fully expect both the commercial lenders and the cooperative Farm Credit System to work with and effectively use a guaranteed program.

Senator Hawkins. Will economically viable farm operations be forced out of business because of a lack of credit?

Mr. Naylor. Not because of lack of credit. There is adequate credit available from either commercial sources, cooperative farm credit, or ourselves. There are certain instances, regrettably, in which operators find themselves overly leveraged, and have other factors involved for which there is no reasonable solution or means of being able to bring them back to financial strength, who will not be able to continue in operation.

I think the numbers that are going to actually fall in that category are less than many expected, just as the amount of operating credit that has been made available this year is more than expected.

But the problem is, nonetheless, a serious one. It is one that is not going to end this year. It is one which we have an obligation to continue to work on aggressively, on the part of the banking industry, and to attempt to find every available solution that we can reasonably use to assist our producers through what is obviously an extremely difficult time for them.

Senator Hawkins. Mr. Naylor, will FmHA close county offices because they are no longer involved with direct lending, and are concentrating on guaranteed farm lending?

Mr. Naylor. We have no specific plans for office closures. We do have 2,300 offices around the country. We will be, as part of a departmental evaluation, looking for means to improve the efficiency and quality of our delivery system, but our main effort has been directed at improving the efficiency of our service, automating it, providing quicker responses, providing quicker processing time, and we will look at where our services are needed. But we have no plans at this point for any specific actions regarding our county offices.

Senator Hawkins. Unfortunately, many Government programs have such burdensome paperwork requirements. Does the loan guarantee process require additional paperwork that will inhibit farmers from participating in the program?

Mr. Naylor. No; quite the contrary, and I think we can improve considerably upon what we have now. Under your approved lender program, commercial lenders and the cooperative Farm Credit System can essentially use their own lending forms, use their own procedures. They have currently three very short forms that they provide for us that have to deal with specific Federal requirements, that have to be recorded in any Federal program.

We are going to look for ways to even shorten that down, and make it less cumbersome than what we believe it is now. The banking industry assisted us in developing that program to begin with. I think they will be more than willing, and we look forward to working with them to find ways to make it even easier for them to effectively use the guaranteed program.

Senator HAWKINS. During your discussions with various commercial lenders, did they indicate that a 75-percent guarantee would be sufficient for them to extend credit to farm borrowers?

Mr. NAYLOR. There are some differences of view among the banking industry on that, but generally speaking, many of the lenders have indicated to us that on a broad scale that is an acceptable level of guarantee, and we think it will adequately meet their needs.

Senator HAWKINS. Will you explain for the committee's record, how the sale of the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund will work?

Mr. NAYLOR. Basically, we are looking at moving on a very carefully planned and graduated basis some of our direct loans into the private sector, with the appropriate authority provided under the proposed legislation. That would involve discounts and adjustments on those loans to commercial lending institutions who would take on the responsibility for servicing and working with those customers. That would be done either on a competitive basis or on a bid basis in the areas in which we would, in effect, bundle up groups of loans, and make them available to the commercial sector, taking into account any deep subsidies that are involved, or other adjustments that would have to be made in determining the appropriate price for that transfer to be made.

That is a very complex, technical problem, one that will not be done quickly, and one that will be done with great care. Frankly, the entire Government, including other lending agencies, is still developing guidelines, not only for Farmers Home, but all other lending programs in the Government where this type of action might be worth considering and taking.

Senator HAWKINS. Thank you, Mr. Naylor. We will excuse you at this time.

Our next witness will be Donald E. Wilkinson, Governor of the Farm Credit Administration.

Do you have a statement that you would like to make for the record?

STATEMENT OF HON. DONALD E. WILKINSON, GOVERNOR, FARM CREDIT ADMINISTRATION, ACCOMPANIED BY LARRY EDWARDS, DEPUTY GOVERNOR AND CHIEF EXAMINER, AND FREDERICK MEDERO, GENERAL COUNSEL

Mr. WILKINSON. Yes. Thank you, Madam Chairman.

I am Don Wilkinson, Governor of the Farm Credit Administration. As suggested by you, I do have a statement which I will submit. I would like to condense my presentation, so that it will permit us to respond to some of your questions, as time permits.[1]

I would emphasize that the Farm Credit Administration is the independent agency of the Federal Government responsible for the regulation, supervision, and examination of the private, cooperatively structured Farm Credit System. You will note that on your agenda you have spokesmen for this system at a later time today.

The longstanding authority which Congress has granted to the Farm Credit Administration and, in turn, the Farm Credit System, lasting for more than some 67 years, provides for the chartering and the operation of these private lending institutions, providing that they administer financially sound, loans to those farmers who are deemed to be creditworthy.

This is the problem that faces us during this severe economic crisis, Madam Chairman. The problems of the present agricultural economy have persisted now for the past 4 to 5 years, and are likely, unfortunately, to persist for at least 2 more years and, therefore, we are faced with some very difficult questions.

For a moment may I review for you the economic stress as we view it, as the regulator of the Farm Credit System. The preservation, the maintenance of that system, we think, is extremely crucial if the American farmers and ranchers are to secure credit, as they have over the many years.

One of the Federal intermediate credit banks is now operating on funds provided on an interim basis by the other 36 farm credit banks within the Farm Credit System. A second Federal intermediate credit bank will also need financial assistance, we believe, before yearend.

In addition, since September 1983, Madam Chairman, 11 production credit associations have been liquidated and during the first 11 months of 1984, 39 production credit associations have been merged, weaker ones with stronger ones, trying to strengthen their capital positions.

This morning, as we commend you for directing attention to the credit portion of the 1985 farm bill, we do so with the realization that the ultimate response to this economic crisis is the improvement of farm income. This is paramount.

While credit considerations are extremely important in the long run, they must be secondary. The Farm Credit Administration, as I have indicated, does have the responsibility for regulation. It is concerned now about the severity of the stress upon the System.

The System has three major banking groups, the Federal land bank, which is the long-term real estate lender. It is now carrying $4 billion of nonperforming loans as of January 1 this year. That is out of a total of $52.3 billion.

The short-term credit handled by the Federal intermediate banks had $2.2 billion in nonperforming loans, of which $281 million were in a nonaccrual status, and the PCA's themselves were estimated to have $2.4 billion in nonperforming loans, out of a $18.4 billion portfolio.

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[1] See p. 818 for the prepared statement of Mr. Wilkinson.

The third banking group, the bank for cooperatives, is handling its stress situation in a better way at the present time than the two groups that work directly with the farm sector.

These lending activities represent a very large undertaking. The Farm Credit System last year sold more than $104 billion of its consolidated debt securities, using no tax dollar whatsoever, as you know. The strength of these securities is dependent upon their quality viewed by the investors.

We have two very serious concerns, as we view the operation of the Farm Credit System. No. 1, since the system raises its loanable funds in the money market, the investors in securities must have confidence in the safety of these investments. We are pleased to indicate to you that to date they do, and we intend to preserve the integrity of those securities.

No. 2, the stockholders, the member borrowers, must have confidence in the management and the financial integrity of their own institutions. Over the last 50 years the Farm Credit Administration and the System have evolved from being one Government agency to a point today where the Farm Credit Administration is a separate regulator, examiner, and supervisor, with the System being the private lender.

One of our grave concerns is that in this change FCA has not had the enforcement authority to correct problems as they arise to prevent the losses that have been taking place or to bring about the changes necessary in the management of the farm credit insititutions.

Madam Chairman, we respectfully urge your committee to provide FCA with the enforcement tools similar to those of the other financial regulatory and supervisory agencies.

These powers would permit FCA to increase local control, increasing the delegation of local control over management decisions, while allowing our agency to withdraw and truly be a regulator, an examiner and a supervisor.

Only a few short days ago Senator Zorinsky, on his own initiative, introduced Senate bill 466, because of his knowledge of the crisis within the Farm Credit System, and especially in his own Omaha Farm Credit District. We were pleased upon his request to cooperate with him.

Since that time, FCA has formally requested the chairmen of the House and the Senate Agriculture Committees to grant FCA these intermediate authorities.

I have indicated that this legislation would grant FCA authorities be comparable to the other financial regulators. Let me review who those are: Federal Reserve, Comptroller of the Currency, the Federal Home Loan Bank Board, the FDIC, and the National Credit Union Administration.

The Farm Credit Administration has responsibilities over this $80 billion Farm Credit System, in a manner very similar to these other regulators.

We are asking for cease-and-desist authority. This the Congress granted to other regulators in 1966. We are asking for other authorities, such as the removal of officers and directors and civil money penalties. Congress granted those authorities to the other regulators in the Financial Institution Deregulation Act of 1978.

Madam Chairman, FCA can no longer stand by and take action after the damage is done. We had time in the past to bring about change. We do not have that time today. It is for this reason that we are asking for specific authority to bring about changes to correct problems before they result in millions of dollars of losses.

I would now move on to two other issues very briefly. The Federal Farm Credit Board, which is our highest policy body, has in its last meeting directed our agency to explore the the merging of unlike institutions within the Farm Credit System. This issue has been discussed in the Congress for years, because the land bank has its separate structure, and the FICB has its separate structure, as does the bank for cooperatives.

We will proceed in this in-depth effort in cooperation with the Farm Credit System. What is essential, however, is for the System to meet its financial difficulties as soon as possible, presumably by the method of consolidating its capital resources, while preserving the decentralized service to its borrowers.

Our agency endorses the effort of the Farm Credit Council, which is speaking for the Farm Credit System in attempting to devise a process of stabilizing asset values. Their proposal is called the Agricultural Conservation Corporation. We have been working with them on it. You will hear more about it today.

Finally, Madam Chairman, as Under Secretary Naylor has indicated, we have been concerned for months with the availability of short-term credit for farmers during this planting season. We were pleased when we were able to cooperate with the Farmers Home Administration to facilitate the debt adjustment program announced by the President last fall. Specifically the expansion of the approved lender status will enable the institutions of the Farm Credit System to work more cooperatively and rapidly with the governmental lending program, the lender of last resort.

In summary, Madam Chairman, we have stressed our desire, our urgent feeling that this agency, as a regulator, needs expanded and additional regulatory authority. We are interested in cooperation with your committee in every way possible to enable the American farmer, through this Farm Credit System, to survive this economic crisis.

Thank you, Madam Chairman.

Senator HAWKINS. Thank you, Governor.

As you know, in my home State of Florida our fruits and vegetables enjoy no subsidies, nor expensive farm programs. Unfortunately, when a freeze kills an orange tree or a grapefruit tree, the grower is out of business for at least 5 years when the new trees begins to bear fruit.

What authority does the Farm Credit System have to assist citrus growers whose trees have been killed due to freeze?

Mr. WILKINSON. The farm credit institutions, both the Production Credit Association, as well as the Federal Land Bank Association, have authority to work on an individual case-by-case basis with borrowers. That means reamortizing the loans, postponement of principal payments, or deferring principal payments, other actions of that caliber. I am pleased to indicate to you that the Columbia Farm Credit Bank, located in Columbia, SC, which serves your State of Florida, through its associations, has been working with the Farmers Home Administration in Florida, in the specific cases you referred to.

The land bank has evidenced to its borrowers, those who have lost their citrus groves, that they would be willing to defer principal payments in cooperation with a FmHA disaster plan. So you have the two major lenders working in cooperation there.

Deferal of principal is a major and important issue with many of your borrowers, I am sure.

Senator HAWKINS. The FmHA director had agreed to serve as the FmHA director for Florida for 4 years. He served with great distinction as FmHA director in Florida.

Unfortunately, he resigned. I suggested the name of a replacement, but the position still has not been filled.

As we would like to arrange hearings to be held in Lake County, a central Florida county that suffered from severe freeze damage, I feel that it is imperative that the FmHA director's seat be filled.

As the tax deadlines approach, the developers are unwilling to purchase the land at its appraised value. The developers are only offering people $2,000 an acre for property, which on the tax rolls is valued at $7,000, with the fruit; 20,000 people move to Florida a month, to make it their permanent home. Builders want to provide shelter for these people before they come. This is an emergency situation in central Florida; simply because we have no FmHA director in Florida.

I wanted to bring this to your attention today to see if you had any insight on this important subject.

Mr. WILKINSON. May I respond to your very interesting challenge, Madam Chairman?

Senator HAWKINS. I have spoken with Frank Naylor, but I am not certain just where the problem lies in filling this position.

I have also spoken with your Department several times on this matter.

Mr. WILKINSON. Our agency is an independent agency. It is not part of the Agriculture Department.

Senator HAWKINS. Yes, I understand, but all agricultural lenders should do all they can to help these people. I've met with your people on several occasions and they have been most cooperative.

Mr. WILKINSON. Thank you.

I want the private lenders, the Federal land bank and the production associations to do the job of serving your borrowers. I had the impression that they were working hard, but they have to do it in cooperation——

Senator HAWKINS. I believe, we do not have all the players.

Mr. WILKINSON [continuing]. With the Farmers Home Administration, and I think, as you well know, FmHA is under no jurisdiction of mine.

Senator HAWKINS. I would like to see everyone work together.

Mr. WILKINSON. We will definitely work with all lenders.

Thank you for bringing this to our attention.

Senator HAWKINS. Thank you.

We have other questions which we will submit for the record.[1]

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[1] See p. 967 for written questions from Senators Hawkins and Zorinsky and answers thereto by Mr. Wilkinson.

The next witnesses are Dale L. Locker, director, Ohio Department of Agriculture, Columbus, OH; Alan R. Tubbs, who is the chairman of the agricultural bankers division executive committee, and president of the First Central State Bank of Dewitt, IA, representing the American Bankers Association; Mel Todd, who is a member of the board of directors of the Farm Credit Banks of Omaha; and Gene Swackhamer, who is president of the Farm Credit Council, Washington, DC. That will be a panel.

I have a meeting, so we will have that panel, and then the staff will handle the meeting.

Do you have a statement?

STATEMENT OF DALE L. LOCKER, DIRECTOR, OHIO DEPARTMENT OF AGRICULTURE, COLUMBUS, OH

Mr. LOCKER. It has been submitted, so in an effort to save time, let me just hit a couple of highlights, since I know that you are going to be busy, and be on your way.[1]

You have to give a little more time to us, we are slow farmers in Ohio. Unlike Florida, we do not have all that sunshine, so we do not move as fast.

Senator HAWKINS. I thought all the farmers were in Florida.

Mr. LOCKER. As they lose their farms, they are gravitating to the South, and we appreciate your kindness in accepting them.

Let me say a couple of things, Madam Chairman. The testimony here will touch on some points that we in Ohio, as a State, are trying to help the Federal level in responding to farm needs when it comes to credit.

We have a linked deposit system which is using the State funds of the treasurer's office. We recently passed legislation, with the support of the Governor and the treasurer, to use the State's investment portfolio, specifically earmarking moneys for farm loans. It was called linked deposit money. This support goes to the local banks throughout the State, $100 million is set aside in that area.

We have had over 200 applications, $25 million has been dedicated. It will also allow funding, or loans, at about a 3 percent below the going interest rate, that is not enough to excite the world, but every little bit helps.

We have an Aggie Bond Program which is predicated on the IDB, the Industrial Development Bonds Program, allowed at the Federal level.

Incidentally, Madam Chairman, I want to do a little lobbying, and say that the Federal IDB Program runs out in 1986, and we think it is very important, essentially as we have now set up an Agricultural Bonding Program to help capital investments for agricultural people in the State of Ohio, using this operation. We would hate to see it expire, since we are now into that.

We also have—it is directly related, although money is involved—the farming community, as you well know, has a major crisis, not only in financing, but in the whole area of farming and agriculture, which is causing unprecedented problems within the family itself. We are talking stress, we are talking alcohol, we are talking drug abuse, we are talking suicide, a variety of things that are happening in the agricultural family throughout this country.

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[1] See p. 822 for the prepared statement of Mr. Locker.

We in Ohio have established a Farm Crisis Counseling Program to try and address that entity. While it has nothing to do with interest, it has a great deal to do with the money problem which is the precipitator of this stress factor that many farmers are going through.

The things I would bring to you that Ohio farmers have indicated, and it relates to financing as well as other programs, is, one, we need a long-term farm policy. One of the problems they have is as the policy changes every 2 years our local lending institutions are never sure what is coming next. That interrupts the loaning process, and the understanding with farmers. That is a problem.

Lower interest rates for operating money, as you have been hearing, are an absolute need, and let me give you a comment. It is not meant to be unkind, but let me give you a comment that the farmers have given to me, and you have heard this a million times.

We can loan foreign entities money at 3 percent, or no percent interest, but we cannot do the same for our farmers. That is frustration talking, Madam Chairman, and they base it on what they hear, because they do not see the action they need, and what they hear is offensive to them. It gives them a concern.

The Farmers Home operation in our State, unlike what I have just heard here this morning, is a major problem. I am glad I was able to visit and hear it—is alive and operating greatly. We have a fine director, working as hard as he can, with this paper inundation, and the process is unbelievable.

My farmers said, tell me something, tell me no, or yes, but, for goodness sake, do it before I die. One of the problems is the operation itself. I am sure, Madam Chairman, you have dealt with these paper shufflers, and you understand what we are saying here.

This gives another problem, which is the fact that it does make some farmers hang on, and there are some that literally are holding on that maybe would liquidate otherwise, but they are holding on, even though they do not believe they will get it. They have not been told no.

I guess the other comments that I would make as a general statement, since we have so many others to hear from, in the 1920's, according to some statistics that I have read, and I cannot validate them, but I have no reason to question them, in the 1920's over 80 percent of the population was involved in agriculture a third of the population was actually onfarm farmers because they were an agricultural economy.

We have dropped presently to about 3 percent. Now we still hear that we need to shake out those bad managers in agriculture.

Madam Chairman, I am here to tell you my concern, at least in Ohio, is if we keep shaking out people that we presume to be bad managers because of a money problem we will probably have only one farm in the entire State of Ohio, and I am not sure it will survive with the present money crunch that we have when it comes to operating funds.

I do not mean to sound unkind. But we use, as a deliberate statement, that if somebody is not making it, they are not good managers.

I will close by giving you one example. A farmer came into my office. He is about 60. He has three farms. He has never missed a payment. He has never been late with a payment. He has always paid the interest, plus some on the principal, and each year he has had to roll it over to get operating money to do his planting. This year that same individual walked in for a loan and was told no.

Oh, Director Locker, how can that happen? Very simple. The land devaluation caused the banks, because of the shaky situation, and not knowing at the Federal level what is going to happen, to not want to take a chance. He does not have the value, and so they say no.

Here is a man who is not a bad manager, has not been, has done everything we normally expect people to do—keep their commitments, perhaps overextended, but who was not, if they bought land at the value that it was. If you wanted to farm, you had to. There was no choice.

He then finds that he is now in the position where he has not changed, but the whole rules of the ball game have changed around him.

You say, Dale, that is an isolated incident. No, Madam Chairman, that happens many times, with many good farmers, and in that farmer mix we have some that I would say just point blank, yes, have overextended. Even so, when we throw them out of the system, where do we throw them? There is no program geared to assisting those people getting back into the main circuit of business or industry or jobs.

Job retraining programs are not geared to farmers. Unemployment compensation—well, farmers are never unemployed. They always have something to do. You name the system, the entities in the system, which are supposed to address people out of work, really do not fit well with the farmers, which is another problem we have.

As we move them out, as we shake out those people, where are we shaking them to? We would ask, as you deliberate on interest, or anything else in the farm bill that, indeed, two things be kept uppermost in mind.

One, farming is unlike any other business, and it definitely is. We have a need to perpetuate that in beginning farmers. We have a need to make money available for operating costs at a lower interest rate, and we have a need to make sure such monies are easily accessible.

Madam Chairman, let me close. I have a longer sermon, by far, but I recognize your constraints.

Thank you.

Senator **Hawkins**. Thank you.

We applaud the State of Ohio, and its efforts on behalf of the farmers.

Did the Ohio banking savings and loan crisis have any impact on this program?

Mr. **Locker**. No, other than to divert attention. But over all, not directly. Indirectly, Madam Chairman, let me point this out.

We have provided the linked-deposit approach which goes through the local banks, and they make the decisions, and handle the paper, such as a support mechanism. We have local banks that for a long time have had small business loans under linked deposits. Some banks are using this, and those same banks are not using the linked deposits for agriculture because of the concern for what is happening in the agricultural entity especially at it relates to Federal programs.

Senator HAWKINS. How many farmers do you anticipate will be assisted by the $100 million under the Linked Deposits Program?

Mr. LOCKER. I really cannot give you an answer on that. We can say, as I mentioned, that we have over 200 applicants, about 200 applicants we have processed. We put out $25 million. It depends on the amount that they are asking for, Madam Chairman.

I am not trying to be evasive, but I cannot really give you exact numbers.

Senator HAWKINS. What would be the amount of credit offered to each borrower?

Mr. LOCKER. We have a limit on that of $100,000.

Senator HAWKINS. Thank you, Mr. Locker.

Mr. TUBBS.

STATEMENT OF ALAN R. TUBBS, CHAIRMAN, AGRICULTURAL BANKERS DIVISION EXECUTIVE COMMITTEE, AND PRESIDENT, FIRST CENTRAL STATE BANK, DeWITT, IA, REPRESENTING AMERICAN BANKERS ASSOCIATION

Mr. TUBBS. Thank you, Madam Chairman.

Thank you and Senator Helms for holding this hearing, and allowing our association to testify.[1]

I am Alan Tubbs, president of the First Central State Bank of DeWitt, IA, a $35 million bank in a predominantly agricultural area. I am also currently chairman of the agricultural bankers division of the American Bankers Association. The combined assets of our nearly 13,000 member banks represent approximately 95 percent of the industry total. Our members range in size from the smallest to the largest, and approximately 85 percent of them have assets of less than $100 million, and deal predominantly with agriculture.

I know that I do not need to extensively review for you the current agricultural problem. The effects are displayed every day on the front pages of the newspapers, but I will summarize by saying that delinquencies and bank failures are increasing dramatically.

I talked to the executive officers of the Kansas Bankers Association yesterday. Out of their 628 banks in the State of Kansas, 104 lost money in 1984, predominantly in agricultural areas. In Iowa, we experienced a loss of at least one bank per month over the last several months, and there is potential for those numbers to increase.

We have nearly one-fourth of the banks in Iowa now on what is termed "the troubled bank list" by our State banking regulators.

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[1] See p. 823 for the prepared statement of Mr. Tubbs.

The number of troubled banks has increased from 183 in 1974 to over 800 in 1984, and those numbers continue to increase.

So we are greathy concerned, not only for the agricultural industry, but also for the banking industry. Based on the agricultural credit and farm debt situation, I see continuing problems, and an unavoidable crisis for this year, and even beyond, as more and more farmers are at the point of no return, and cannot repay loans to their lenders. We are dealing with close to an economic collapse in some predominantly agricultural areas.

Statistics will show a decline in land values as a significant contributor to this. Even in Iowa we are seeing statistics that show a drop in land values of 28 percent. When we take a look at the current situation we can clearly see that land values have declined by more than 50 percent in many areas, dropping farmers' equity and lenders' collateral values. Lower land values truly do threaten the structure, and even the existence of one-third of our Nation's farms, some element of rural communities, and the lenders that service those communities.

In the context of this difficult time for farmers we appreciate the opportunity to address a number of key issues. More detail of those issues is pointed out in the written testimony which we are submitting, but I do want to touch on a few of those areas at this time.

I want to focus some attention on FmHA lending, because they have been in the news a great deal lately, and we have been working very closely with them.

We, in general, agree with the movement of the administration toward more guaranteed loans, and away from direct lending, however, we acknowledge, as was cited earlier, that the process cannot move too quickly. The fact is that these agricultural credits are in very difficult straits. The reasons that the programs appear not to be working as well as we would all like to have them work is the farmers are severely distressed. They are not only not bankable, but they are very difficult situations. Even the Farmers Home Administration is reluctant to take on some of these difficult credits.

We do believe that the Government appropriations can be used more effectively in guaranteed loans, as we move the servicing of loans back to the private sector. Therefore, we are generally in agreement with those provisions.

We are trying to work with the debt adjustment program but, the credits are difficult to work with under the DAP. With some interest write-down, and we do appreciate the opportunity to be able to use an interest rate write-down as opposed to the principal write-down, we would rather write off income for this year and next year, than take a hit on capital that threatens the survival of the institution.

We will do everything that we can to make the FmHA programs work, and to expedite the process. Again, there are differences of opinion about how to handle the backlog of applications and work them through the system.

Some lenders will have good experience, others will report that they are having extremely difficult times with FmHA. There is a gross difference in the administration of these programs from one county to the next, and from one State to the next, and that is a part of the reason why we are getting different signals.

Senator Zorinsky, in close cooperation with the Farm Credit Administration, introduced S. 466, which broadens the Farm Credit

Administration's authority. In some cases, in our opinion, these authorities comprise broad and expanded powers which, when combined, exceed those possessed by other Federal or State financial regulators.

When addressing the financial problems of the Farm Credit System, Congress should consider these proposed broad new powers carefully in order to protect the rights and the autonomy of the local farmer cooperative member.

Our concern with these new powers is that they bring both management and regulation under one roof within the Farm Credit Administration.

Another area that has already been touched on is the Agricultural Conservation Corporation [ACC], which is proposed by the Farm Credit Council. In the opinion of ABA, a program like this may be necessary in the future to stabilize declining land values. We are monitoring this issue, want to be involved in future discussions.

Certainly, if something like the ACC is created and implemented it is important that the banks and be available to utilize that kind of a program and other institutional lenders. Our major concern is funding and the impact on the budget, and whether that would be funded by guaranteed Government funds, or whether it would be funded in the private sector.

Again, along the lines of working with the Farm Credit System, we have some concerns about some of their goals to reorganize the Production Credit Associations and the Federal Land Banks under one roof. We have worked closely with the Production Credit Associations, and we have worked very closely with the Federal Land Banks, who are the primary, and almost only source of institutional, long-term source of credit to agriculture.

With those institutions operating under one roof it will be more difficult for individual banks to cooperate with the Farm Credit System in financing long-term loans. The short-term loans will be exposed to the Farm Credit System as well.

Therefore, we are looking toward the possibility of a secondary mortgage market for agricultural loans to provide more competition in the long-term loan market for farm lending, and also to provide a better market in that area.

The issue of net worth certificate is another area that has been addressed concerning the position in which the banks have found themselves as a result of these agricultural problems. A couple of years ago the net worth certificates were put in place to help the savings and loan industry through some of their difficult times, and it has been proposed a number of times that agricultural banks also be allowed to utilize those net worth certificates.

We agree that that may be necessary, but rather than just extend that authority, we think that some changes are in order. Those changes should require the savings and loan industry to adhere to the same standards as the banking industry. The differences between banks and savings and loans institutions I think were most dramatically apparent in the recent Ohio situation. And I noted Senator, when we were talking about it just a minute ago, you referred to the Ohio banking crisis, and it was not a banking crisis, it was a crisis in the thrift industry, the savings and loans, and their insured funds, and not the banks.

There is a gross difference in the regulation, the capitalization, taxation and powers of the thrift industry and the savings and loan industry and the regulation of the banking industry. I think that distinction needs to be made.

When we are talking about using the net worth certificate, I think we need to bring these standards of savings and loans up to the standards of banks, and work to extend the net worth certificate program for both institutions, because lending in either the mortgage or farm areas reduced their capital.

Generally we agree with the possibility of using those certificates, and it may be necessary, in certain instances, in agricultural banking communities.

The next thing I would like to touch on is the recent legislation that deals with clear title for agricultural products, which certainly has an impact on the ability of banks to extend credit, particularly operating credit.

S. 744 adds burdensome requirements of notice from the lenders to the buyers of agricultural commodities, and eliminates the "farm products exception" under section 9 of the UCC.

The significance of the exemptions has been that farm commodities are sold in bulk, and once they are sold, the farm commodity ceases to exist, or changes materially in form. This is not normally replaced in inventory, and it cannot be traced, or differentiated. Therefore, the loan cannot follow the goods.

These are some of the reasons why the ABA opposes the passage of this bill in its present form. It will, if it is passed, eliminate, or significantly reduce the extension of credit to some of those people who are most needing credit at this time—where the risk to the lender is the highest.

We offer a counterproposal that stipulates a certificate of title is to be passed with the goods, at the point of sale. The buyer would require from the seller, or provide for his signature, a certificate stating that there is no lien on the farm product to be purchased. Upon receipt of the certificate, if the buyer issues a multiparty check, listing the lien holders, the buyer may take possession of the property, free of security interest.

If the seller has no certificate, the buyer should receive a written statement that no lien exists against the farm products to be purchased, and retain it in his/her file for up to 2 years.

If the buyer receives a written notice that no lien exists at the point of sale, she/he may take possession of the product, with no security interest.

The statute of limitations could be lowered from 5 years to 2 years, and our proposal calls for stringent criminal penalties for fraud and no discharge of the loan obligation in the event of bankruptcy.

On the Federal crop insurance issue, we generally agree with the administration's proposal to move that into reinsurance handled privately. Our only caveat is that the FCIC must take care to assure that at its departure as a primary insurer it is actuarially sound and does not leave gaps in coverage.

We hope this is feasible, but we have some unanswered questions. In general, we would like to see FCIC moved in the direction of private operation.

Lenders these days are becoming all too familiar with the bankruptcy issue, and there are proposals currently in two bills introduced in the House which would allow farmers to file under chapter 13, as well as under the widely used chapter 7 and chapter 11.

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Lenders these days are becoming all too familiar with the bankruptcy issue, and there are proposals currently in two bills introduced in the House which would allow farmers to file under chapter 13, as well as under the widely used chapter 7 and chapter 11.

Chapter 13 is a wage earner's chapter. Farming is a business, and the provisions of chapter 7 and chapter 11 should be amended to better address agribusiness. Farmers should not be able to go into chapter 13 because it only delays difficult decisions, both for the producer and for the lender, and creates difficult credit situations.

One of the problems with the chapter 11 is the backlog of applications, and the lack of available judges to hear those cases.

Second, chapter 11 concerns reorganization bankruptcy. Oftentimes the judges are not familiar with the agricultural situation, and set up reorganization plans that are not realistic. So we prefer to see some amendments to chapter 11 more than having chapter 13 opened up to farm situations.

Although tax issues are not under this Agriculture Committee's jurisdiction, I want to comment on a serious problem that is facing agriculture, which directly affects farmers, agricultural suppliers and lenders. The issue of artificial or paper equity gain through inflation. This paper equity gain results in large capital gains at the time of a farm liquidation, either a regular sale by the borrower, or a deed in lieu of foreclosure.

All of that triggers the capital gains problem. If the farmer makes a decision to voluntarily deed the property to the lender, he can create a very large paper capital gain, between the original sale price and the asset's present value. His debt often equals or exceeds the value of assets.

In reality, he has made no capital gains profit. However, the IRS does not see it that way. Consequently, to avoid the potential IRS tax, the farmer files bankruptcy.

In other words, the tax laws provide an incentive to move into bankruptcy, rather than to work through the problem in a different manner.

In conclusion, the American Bankers Association supports the goal of reducing the Government's role in agriculture, and concurs with Senator Bumpers who earlier acknowledged that today's fragile agricultural economy will be even more devastated with any major shift to a market orientation for commodity support and loan levels in the 1985 farm bill.

We firmly believe that reductions in levels of price supports toward a market orientation should not pull the props out of an already distressed agriculture.

Finally, I am most deeply troubled about the lower one-third of the American farm economy: its structure, its existence during the next few years, and the impact of its instability on rural communities and banking.

Our ABA survey earlier this spring showed 15 percent of the farm producers would not receive credit this spring. Our understanding is that half of these farmers are still up in the air, and the other half have, for the most part, have had to make the decision to leave the industry.

My biggest concern today in this agricultural evolution as it continues are the legal entanglements that have resulted. And when they go into court cases they will set a precedent which will make it very difficult for farm lenders to go along with farm borrowers in distress situations in the future.

Let me give you just a few examples: Near my hometown in Iowa, a bank is currently in the process of collection on a large farm loan. The farmer has turned around and filed a countersuit against the bank for $6.5 million, citing 14 counts where the bank failed to provide correct advice, or the documentation was suggested to be incorrect.

In another instance, a farmer sued the bank for $5 million, claiming bad advice on a marketing procedure. He won a $1 million settlement.

Recently a farmer sued an FCA lender for not completely honoring a verbal agreement on a loan, which they said forced the farmer to forego future income, and a verdict was given, granting a $70,000 judgment.

These are some of our greatest concerns. I realize they are not congressional matters, however, settlements of this nature will make it very difficult for lenders to go the extra mile servicing farm credits as they have tried to do in the past.

Finally, we firmly believe that the issue of the budget deficit and Federal spending is paramount to the agricultural situation. We are not going to get back to a sound agriculture through credit. It has to come from profitability. That means lower interest rates, and reducing the value of the dollar, thereby increasing export markets. That can only come from budget reductions.

Of all the issues I have talked about today, I've tried to focus on the budget. I have not suggested any additional outlays, and we believe Federal spending to be the paramount problem in the agricultural economy.

I thank you for the opportunity to testify before you today, and I would be pleased to answer any questions you might have.

Senator HAWKINS. Thank you, Mr. Tubbs.

Do you think that commercial banks will work with the Farmers Home Administration to administer those programs?

Mr. TUBBS. I believe they will.

Senator HAWKINS. They will, or will not?

Mr. TUBBS. I cannot say for sure, because ABA represents thousands of banks. On behalf of my bank, I can say I will. But, as I was telling you earlier, the administration of these FmHA programs varies greatly from one county to another, from one State office to another.

To the extent that those programs are streamlined, and they are workable, the banks will work with them.

Senator HAWKINS. What are your views on the Farm Credit Council's conservation plan?

Mr. TUBBS. The Agricultural Conservation Corporation [ACC] is a plan to begin to move nonproducing assets out of the land market. The plan proposes to address one of the most aggravating problems of the farm credit situation right now, and it is likely that something like the ACC will be necessary to arrest the decline in land values.

The only question we have on ACC is how it will be funded and what its impact will be on the budget.

Senator HAWKINS. What are your thoughts on the Farm Credit Council's request for enforcement authority?

Mr. TUBBS. The major concerns we have about that primarily rest with moving the authority for hiring and firing away from the local Production Credit Association [PCA], Federal Land Bank level, and the district level, to the Farm Credit Administration. This proposal puts the management and the regulation of the system under one roof.

Senator HAWKINS. Senator Zorinsky, do you have any questions?

Senator ZORINSKY. No.

Senator HAWKINS. Senator Harkin, do you have any questions of this witness?

Senator HARKIN. No.

Senator HAWKINS. Thank you, Mr. Tubbs. You may be excused.

Mel Todd is with us today as a member of the board of directors of the Farm Credit Banks of Omaha, and Gene Swackhamer, member of the Farm Credit Banks of Baltimore.

You are representing the Farm Credit Council, Washington, DC. Do you have a summary of your statements?

STATEMENT OF MELVIN TODD, JR., MEMBER, BOARD OF DIRECTORS, FARM CREDIT COUNCIL, AND MEMBER, BOARD OF DIRECTORS, FARM CREDIT BANKS OF OMAHA

Mr. TODD. Yes, Madam Chairman. We have a written text that will be presented.[1]

I would like to go through that, and just briefly hit some topics we would like to bring before this committee.

As you stated, I am Mel Todd. I am a farmer from Union, NE, also a member of the board of directors of the National Farm Credit Council, and also I might mention, as you are well aware, spring and planting season is the busiest time of the year for us farmers, but I did feel strongly enough about the issues to be discussed here today to leave my son home alone to do what he could as far as the chores and the planting, and maybe park the planter for a couple of days to take the opportunity to be able to testify before this committee.

I want to voice a concern about an issue that relates directly to the budget debate proceeding on the floor of the Senate. The President's budget for fiscal year 1986 contains a recommendation that Congress enact legislation to impose a user fee on the Farm Credit System, and on all other Government sponsored enterprises.

The budget resolution reported to the full Senate 2 weeks ago assumes budget savings derived from the imposition of such a user fee, and that assumption remains in the latest compromise.

We strongly oppose this tax on farmers. Of great concern, however, is that this fee is expressly promoted by OMB as a crucial first step in its strategy to oust farmers from the agency market by increasing the fee over time.

Finally, I call to the committee's attention the recent report by the Comptroller General, in which he concludes that a user fee on the Farm Credit System would be inappropriate.

A major topic I wanted to discuss with you this morning is the continuing deterioration in farm financial conditions, the impact of these conditions on farmers and their financial institutions that serve them, and the continuing decline in farmer asset values that is making these conditions even worse.

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[1] See p. 832 for the prepared statement of Mr. Todd.

Farm lenders must be concerned not only with the borrower's ability to repay, but also with the value of collateral pledged. Prior to 1981, when asset values were increasing, lenders were able to stay with farm borrowers, despite some financial difficulties, so long as collateral margins remained intact. Those days are gone.

Today not only has the income situation failed to improve, but the value of farm assets has declined as well. Not since the 1930's have we seen such a dramatic and prolonged period of decline in farmland values. The decline has continued for the last 4 years, with some areas of the country having experienced as much as a 50-percent decline in land values in that short time.

Nationwide, using the 1967 constant dollars, the value of farm assets declined by almost $80 billion by the beginning of this year, and we are aware of no one who is predicting that, if left unaddressed, this trend will reverse itself in the near future.

To give you one example, I was talking with a loan officer the other day at a board meeting who mentioned that in Wayne County, IA, where a piece of property that consisted of 650 acres and once sold for $650 an acre, probably at the high time, half cropland, and half pastureland, sold the other day for $150 an acre. So when you talk about it, that is one of the extreme cases of devaluation of assets.

The Food and Agricultural Policy Research Institute, co-located at the University of Missouri and Iowa State University, predicted what might happen to the financial conditions of farmers between 1985 and 1986 under various economic senarios. Under an optimistic scenario for the farm income, where land prices hold their present value and with interest rates at 10 percent, some $50 billion in farm assets may have to be sold by farmers if they are to fully service their remaining debt. According to the faculty report to be released next week, even with the liquidation of these assets, some $4.2 billion would have to be written off in loans. That is the optimistic scenario, assuming that income for farmers in agriculture would be up $6 billion next year from what it was this year.

Should things deteriorate so economic levels decline, asset values fall to 65 percent of their current value and interest rates hover at 10 percent, economists project roughly $165 billion in farm assets will have to be sold by farm operators in order for them to fully service their remaining debt. About $18 billion of farm debt may have to be written off under this scenario.

This data is startling, to say the least. To better understand the impact of what might happen, we asked the economists to take the analysis one step further. We asked them this question: What will the impact be on not only those who deal directly with agriculture but on the Nation's economy as a whole if as much as 4 percent of the farm debt had to be discharged and the remaining 4-percent figure is less than half of what the predictions for the worse-case scenario were?

Their response was a 4-percent loss of all farm debt would result in an estimated loss of $7.3 billion in personal income, $21.7 billion in lost output, and losses of more than 500,000 jobs.

A key variable in this scenario which, if held stable, can make a major difference in its outcome is the value of farm assets. But with nothing in place to stabilize asset values and with this analysis concluding that even under the best circumstances as much as 10 percent, or three times the normal amount of farm assets, will find their way onto an already glutted market, there is a real threat of a radical downward spike in farm asset values. Some mechanism must be in place to prevent that from occurring.

To do this, we are suggesting the formation of an Agricultural Conservation Corporation. This will be a federally chartered corporation that would purchase real property directly from financially distressed farmers who are in need of restructuring their farm operation and, in addition, purchase inventoried property from lenders. This Corporation would extend credit to no one. It would not be a dumping ground for nonperforming loans or a foreclosure agent. Quite the opposite.

By giving hard-pressed farmers a place to sell a portion of their property, it would give them a restructuring option not readily available to them today because of the lack of buyers for farm assets. A farmer who sells property to this entity and his family would retain a right of first rental. He would be protected against the sale of his property by the Corporation for a period of 3 years, after which he would retain the right of first refusal on the sale of the property by the Corporation for a period of 2 more years. In addition, it would permit lenders to move inventoried property out of their portfolios, thus reducing their operating costs and permitting them to pass the savings on to their customers in the form of lower interest rates. Some projections I have seen in that scenario would be that if this were in place, PCA's could possibly reduce their interest rate by one-half to three-quarters of 1 percent and land banks by a quarter of 1 percent.

These features are clearly designed to slow financial deterioration for farmers who have a reasonable chance for survival and permit them to get back on their feet.

The Corporation would capitalize itself through the issuance of Government-guaranteed debt as well as through mandatory stock purchased by those who sell property to the Corporation. The operating expenses of the Corporation would be supported from income generated by leasing acquired property or through Government payment in return for the Corporation holding property out of production. Operating costs that exceed this income stream would be restored by the Government. The Government would hold first claim to any operating gains and any gains on the sale of real estate by the Corporation in order to recapture the operating subsidy it provides.

What would the cost of this program be to the Federal Government? Quite frankly, Madam Chairman, that depends on a lot of factors.

Senator HAWKINS. What is your estimate?

Mr. TODD. As best we can determine in its overall 10-year life, the operating subsidies needed by the Corporation would be approximately $1.5 billion. Let me hasten to point out though, because of the subsidy recapture provision built into this concept, to the extent the value of farmland recovers over the next 10 years that operating subsidy would shrink to almost nothing. In fact, we estimate if there was a 10- to 12-percent inflation factor over a 10-

year period that the operating expenses would be reimbursed. There would be enough income to reimburse.

Senator HAWKINS. What is your estimate of not proceeding with efforts to stabilize land prices?

Mr. TODD. There could possibly be $165 billion worth of land on the market. A major point I want to make is that the precarious decline in farm asset values has contributed heavily to the financial decline of many family farmers. What we are recommending is a bold approach to address that problem. We are not wedded to all of its details but we feel strongly that both the problem and a solution to it must be front and center if there is to be any success in returning agriculture to a position of financial strength.

We firmly believe that in responding to the current farm crisis, the Congress' first goal should be to slow the deterioration in financial conditions for those who still have a reasonable chance for economic survival. The formation of an Agriculture Conservation Corporation would go a long way toward achieving that goal.

Madam Chairman, I would like to call on Gene Swackhamer to address additional issues of concern to the Farm Credit System, and I will be happy to respond to any of your questions.

Senator HAWKINS. Thank you, Mr. Todd.

Unfortunately, we are running out of time, will you summarize any comments you have, Mr. Swackhamer?

STATEMENT OF GENE SWACKHAMER, PRESIDENT, FARM CREDIT BANKS OF BALTIMORE, REPRESENTING THE FARM CREDIT COUNCIL

Mr. SWACKHAMER. Thank you, Madam Chairman, and members of the committee.

I am Gene Swackhamer, president of the Farm Credit Banks of Baltimore, and I am here today officially representing the Farm Credit Council.

The Farm Credit Council is a business trade association of agricultural credit businesses that operate on a cooperative basis. I would like, with your permission, to request that my full statement be included in the record.[1]

Senator HAWKINS. So ordered.

Mr. SWACKHAMER. I will comment on three specific issues. Senate bill 466, Senate bill 744, and another issue pending before the committee on eligibility of rural electrics to borrow. I will paraphrase my comments from the prepared text.

I commend Senator Zorinsky for introducing Senate bill 466. I think it is an important and timely concept. You heard the comment of the Governor of the Farm Credit Administration this morning saying they essentially have two authorities. One of them is basically to arm twist or cajole. The other is very extreme, to remove funding. They need some intermediate powers, and we agree with that concept.

S. 466, however, as drafted has some serious technical deficiencies, and we would oppose the bill in its present form. We are on record to that effect, and I would like to point out just a few areas of concern.

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[1] See p. 839 for the prepared statement of Mr. Swackhamer.

In section 4.30, the cease-and-desist authority, the terminology there providing for fines is such that the specific section, 4.37, of the act would provide for a civil fine up to $1,000 per day. And to that extent, that is based on a final order through a judicial or adjudicated process, and it is comparable with other authorities that the FDIC and FSLIC, but this provision goes even further and would hold the institutions accountable for any violation of the act or regulation without the benefit of the final rule. And we consider that a serious additional power.

In the removal of directors and officers, section 4.33, there are several additions or omissions from comparable authorities of other regulatory agencies that are also important. Perhaps the most significant is the insertion of the word "negligent" which has the effect of usurping under common law the business judgment rule. That is an important rule to any business operation because it provides assurance to both directors and officers that if they analyze the available information and make a judgment based upon what they know at that time, it should be a reliably sound and prudent judgment, and hindsight should not hold them accountable if events and circumstances prove that it has changed. We feel the insertion of that word "negligent" which is different from other financial regulators has the effect of placing a new authority in the Farm Credit Administration which is a power greater than exists in many courts.

The personal liability provision of section 4.43 also is opposed in its present form. The Comptroller's statute which this is patterned after imposes such liability only upon directors and then only in the case of conduct so serious as to result in a forfeiture of the institution's franchise which would require a determination in Federal court. The provision as drafted in addition to directors includes officers and, in fact, holds officers accountable for the conduct of directors who employ those officers. It needs attention.

For forfeiture of franchise, as in 4.38, the act provides that if the directors of a system institution knowingly violate or allow others to violate the act or regulation, that institution may be required to forfeit its franchise. We think there are some unique characteristics in how the Farm Credit System is chartered, how it is organized and how it operates. We doubt it would be wise to institute a power, even though an intermediate power, that would require the Farm Credit Administration to remove or cause a forfeiture of a franchise. Those that would suffer would be the borrower/owners. Unlike a commercial banking institution where a customer might walk across the street to another institution, ours are unique and another similar institution may not be available to the customer.

In the merger authority provided in section 3, it removes the current authority of a district board of directors duly elected by the shareholders to concur in such merger activity with the Farm Credit Administration, a regulatory agency, and it has in place substituted a Government agency with the authority and power to impose mergers of institutions without the expressed approval of the shareholders, investors and others. I think that is a very serious and very important intrusion into private industry by the Federal Government.

Finally, in regard to S. 466, I would point out that the Farm Credit System pays for its examination, regulation and supervision in its entirety, so to the extent that this provision would lead to additional manpower of the Farm Credit Administration as a Federal Government agency, it would increase the costs of our doing business. We have no objection to that to the extent that it leads to a more efficient regulatory agency.

S. 744 addresses another important area, the farm products lien. Our testimony here is in opposition to the bill as drafted. We believe that it is important to establish a uniform or a partnership of responsibility between lenders, between sellers of goods and between the buyers of goods. The aspect of this bill addressing the so-called provision of double jeopardy has the effect of taking those provisions of the Uniform Commercial Code now which puts the burden on the buyer and transfers it almost in its entirety to the lender.

What we would propose in the same way as was stated by the American Bankers Association would be an alternate provision which would place some burden on the seller of the goods or products so that he would have to certify that the product is free of lien. We feel that is not an unreasonable request. It is no more difficult than you or I would have to do if we sold a car or home or any other product in which we have to give clear title. We think the bill as drafted now would significantly increase the burden both of lenders and of buyers. The lenders, in order to protect themselves against unscrupulous sellers of a product who might sell a product under lien, would under this bill's provision be forced to provide blanket information over an extended period of time to all prospective buyers. And the buyers, probably in order to protect themselves, would be inundated with such statements.

We believe a certificate not unlike a bill presently being considered in the State of Missouri and included as an attachment to my statement is worthy of the committee's consideration.

A final subject that I would like to briefly touch upon relates to the eligibility of the rural electric organizations to borrow from the banks or cooperatives as part of the Farm Credit System. The authority there has existed for many years, first dating from 1933, at which time the language of the act said essentially all the voting stock of a rural electric shall be held by farmers in order for the R&C to be eligible to borrow. Realizing that all it took was one mistake essentially to put us into a position where there would be a technical violation if it were literally interpreted to be all, there began a process of better defining eligibility and that eligibility has moved from 90 percent to 80 percent in 1971 to 70 percent in 1975 to 60 percent in 1981. At the present time it is still in need of further consideration. The issue arises because the rural electrics are chartered to service all of the consumers of a geographic area and have no choice but to accept them. To the extent R&C's serve nonfarmers, they diminish their eligibility to borrow from the Farm Credit System, which is not their primary source of credit, but is an important alternative source of commercially priced credit.

We would like to see a provision that would either allow those rural electric cooperatives eligible for financing from the Rural Electric Administration to be eligible to borrow from farm credit or an alternative in which a simple majority of the voting stock is held by farmers constituting eligibility or, even more generally, any rural electric organized and doing business on a cooperative basis might be eligible. We think it is an important issue for consideration so that there is a continual flow of financing into rural areas for electrical services.

So, with that, Madam Chairman, I would conclude my paraphrasing of these remarks and be available for any questions you or the other members of the committee might have.

Senator HAWKINS. Has any other agricultural association or other interested parties considered your proposal?

Mr. SWACKHAMER. Well, again, I am addressing——

Senator HAWKINS. The two of you——

Mr. SWACKHAMER. All three provisions?

Senator HAWKINS. Yes.

Mr. SWACKHAMER. I think because Senate bill 466 has been introduced, it is being addressed by all of those affected. I think the farm product——

Senator HAWKINS. And S. 466. You commented on that.

Mr. SWACKHAMER. S. 466 by Mr. Zorinsky, I think is an important bill and it is timely. It is being addressed by those who are diretly affected as well as those who have an interest in the regulation of financial institutions. The farm products lien bill is important because it has applicability in all States, and if enacted, it might usurp the State laws pertaining to the treatment of farm product liens. I think all producers, all lenders and all buyers of farm products have an interest in that provision.

The rural electric provision I mentioned is of primary interest to those who use the Farm Credit System.

Senator HAWKINS. At this point we are going to have a break for about 5 minutes so the court reporter can stand up.

[Short recess.]

Senator ZORINSKY [presiding]. We will resume the committee hearing

Mr. Todd, as you know, many Farm Credit System lenders have been experiencing serious problems in Nebraska and I am concerned that rumors and reports in the media can cause borrowers to panic and leave the System. That would create further problems and exacerbate an already overburdened System.

What assurances can you provide to the farmers of Nebraska that the Farm Credit System is sound and that adequate steps will be taken to prevent further liquidations?

Mr. TODD. Senator, your concern is one we have had also—in that, as you know—we have had two PCA liquidations in our district which were in Nebraska, and we have many troubled lending institutions, local banks, farm credit associations. We have done, are doing and will be doing more things in the future, and I would like to elaborate on them a little bit individually because we do have a real concern about misinformation, about the effect that this could have on the cost of bonds to us in the Farm Credit System and the interest rate for farmers which could be of far greater impact on the loss of confidence in the farm credit bonds than what the losses would actually be in the System.

Liquidation, of course, is the very last resort to address an issue where you have a very troubled association. The things we have tried to do is try and be very up front with the facts, very open with the information. We have had this winter more meetings with the directors of associations to try to bring them up to date on the overall credit quality and financial situation of the System. Also we have already gone to common management in the farm credit banks in Omaha in that, as you know, of the three banking systems we have merged into one president, one group of vice presidents, common management for all three banks. We think this makes us more efficient, helps in coordination which is a big factor, and helps in the long-term and short-term coordination of a borrower's debt.

We are also in the process of going to common management and common territories in the associations. We had some 70 individual land bank and PCA associations. That group has come together and organized and has come up with a plan to go to 15 associations in our 4-State area under common management, common territories. Also we have utilized some loss sharing agreements, but these were primarily set up to ensure our security and have not really fulfilled the necessity as far as losses in individual associations.

But we have used other methods to mobilize capital through mergers and are looking at other alternatives to the better use of the capital that the System has.

Also the Omaha district has made a request to the other 36 banks in the System for aid, and so we have taken actions and are going to take further actions to try to deal with this.

Senator **Zorinsky**. The administration is proposing to either sell or transfer to commercial or farm credit lenders the existing operating and ownership loans on terms set by the Secretary. Looking at their loan portfolio, is the Farm Credit System anxiously awaiting to absorb these loans?

Mr. **Todd**. I think we have an adequate supply of stressed loans at this time. We do like to work with the——

Senator **Zorinsky**. What will happen to those stressed loans?

Mr. **Todd**. What will happen to them?

Senator **Zorinsky**. Yes.

Mr. **Todd**. As you know, FmHA is a lender of last resort, I think, as has been brought before the committee earlier today, and we are a private organization and cannot afford to subsidize agriculture. Our bonds do have to stand on their own.

Maybe Mr. Swackhamer would like to address that, being the president of a bank, and the effect it might have.

Mr. **Swackhamer**. I think Mr. Todd answered well, Senator.

Senator **Zorinsky**. Senator Melcher, do you have any questions you would care to ask or any comments you would like to make?

Senator **Melcher**. Mr. Swackhamer, you are recommending S. 466, the provisions of which have been worked out by the Farm Credit Administration and which Senator Zorinsky has introduced in bill form.

In hearings held in Montana recently within the last 2 weeks, members of a PCA out there were not hesitant in saying there were some things lacking in S. 466. No. 1, they point out the B stock in the case of liquidated PCA's heretofore has been paid off. It is now being refused payment and they look at that, No. 1, as a very serious obstacle to overcome. Second, getting beyond the liquidated PCA's and what happens to the B stock, is that B stock ought to be up front, guaranteed, and there is no provision, or yet there is no provision in S. 466 for that.

Since, after all, borrowers are the owners and operators of PCA's and the only way that PCA has any customers is the confidence of the borrowers, what are you recommending to overcome this very serious deficiency in S. 466? You did not mention anything in your testimony on these points.

Mr. **Swackhamer**. Let me comment, if you will permit, Mr. Chairman.

Senator **Zorinsky**. Please do.

Mr. **Swackhamer**. Senate bill 466, which has been called the FCA intermediate power bill, deals with the regulatory agency and its provisions for causing the Farm Credit System institutions to be examined, to promulgate regulations, to generally supervise and to see that there is assurance of both investors as well as borrowers of sound, efficient, and effective operations.

Now, as a cooperatively owned and organized business system, each of the three bank groups and those that have affiliated associations buy money from investors rather than have Federal funds appropriated to us. So, for all practical purposes, for almost each dollar we use, we are using somebody else's money. It is not like the commercial bank who uses the depositors' money. We are using an investor's money and we are giving them the assurance that their principal with interest will be repaid at maturity. And they are willing to finance us on that basis, which is our reputation, our traditional honoring of those commitments. And there is no full faith and credit guarantee either direct or implicit in the operation that we maintain.

Now, as a cooperative business then we have two ways of generating and maintaining capital to support our business, and one of the fundamental principles of cooperative business is that the owner/members capitalize that business and do so to receive a stream of benefits which might include assured availability of credit, reasonably priced credit, local service and control.

Senator **Melcher**. Mr. Swackhamer, let me interrupt you right there.

First of all, the credit is provided, generally speaking, now for PCA's across the country, at a higher rate than what the commercial banks would give to the better borrowers. So there is no attractiveness in a PCA for a borrower other than it is the last resort before the Farmers Home, or it is just convenient and he has been a PCA member for a generation.

Now, we have gone beyond the time when PCA's provided loans at interest lower than the country banks have, and so we are not in that position. So there is not that much difference between what the PCA's are operating on and commercial banks.

My question is a very practical one. You are not in business unless there is confidence of the borrowers. The confidence is rocked. PCA's have been liquidated up until now. Those currently under liquidation have paid out completely on the B stock.

My question is simply this. If you have no intention of drafting legislation to be included in the bill, that is simple enough. I was under the impression that the Farm Credit System, particularly the Farm Credit Council, wants to draft such legislation.

Now, is that wrong?

Mr. **Swackhamer**. That is not my understanding, Senator. I think our concerns are two or threefold. One, we are a specialist in agricultural lending. Therefore, we are a reflection of the state of the industry that we finance. We are not always and have not always been at a price of credit more reasonable than commercial banks. We are an average cost pricer, and I think though if you look through the years from the inception of the Production Credit Association or Federal Land Bank operation, you would find that even as an average cost pricer, meaning we take the entire cost of the entire debt portfolio to determine the pricing of the product, there have been many years when it has been favorably priced credit, but there is no assurance nor is there any guarantee that it is going to be a lower price because, again, we must buy money and that reflects the current monetary conditions.

Senator **Melcher**. I want to be satisfied that we can get you back into at least the competitive position, that is, you offer not a higher rate of interest than commercial banks, and I want the Farm Credit System to survive. But I recognize trouble when I see it, when it hits me over the head. I have been clubbed over the head by the membership of PCA's, and that says something to me. If they are saying this like they are, it means in order for them to continue to want to give their business to a PCA, they are going to have to know that that B stock that they are forced to buy to get the loan is guaranteed.

Now, you have not responded to this point, and I think it is crucial. PCA's that have been liquidated prior to the ones that are under liquidation now have completely paid off the B stock 100 percent. Now you want to make a shift. Are you trying to defend that?

Mr. **Swackhamer**. I think there is no intended policy shift there. There is an obligation on the part of any cooperatively organized organization to try to honor in liquidation its stock and other obligations.

Senator **Melcher**. They not only try to honor, they just did, and they took money out of the till and paid it. We have got an intermediate credit bank in this 12th district which if it goes under, I do not think you are safe in Baltimore. I think it goes clear across the System and the whole System unravels.

You toed up part of the $25 million that is now in the till?

Mr. **Swackhamer**. We are doing that on a monthly basis.

Senator **Melcher**. I would prefer you recommend that you take the strings off that and tell that intermediate credit bank to go to the till to make good on the $16 million of B stock outstanding.

Mr. **Swackhamer**. There are separate and distinct corporate entities, and one of the ways in which the banks have attempted to protect themselves at this point has been to enter into capital preservation agreements which reflect the fact that we are issuing joint and several liability securities. In addition, we have entered into contractual agreements which are loss sharing, and we have a real interest in assuring ourselves of sound financial system operations because if we can continually acquire money and price close to the Treasury yield curve, we are helping more farmers who are sound borrowers. And if we would try to, some way or another, guarantee the repayment of all stock which would have the effect of negating them from the equity portion of our financial statements, we would probably not be able to fund the outstanding needs of the Farm Credit System or future needs.

So we have to take the position that owners of any business invest in that business and their investment is at risk. It is stated that way in the statute.

To the extent we can enter into support agreement to help alleviate the strain and stress, we have done so. But we cannot take a guaranteed position.

Senator MELCHER. Mr. Swackhamer, the advice, of course, is free and sometimes free advice is worth just what you pay for it. But it is my firm observation or firm belief that if the 12th District Intermediate Credit Bank goes down, the reverberations of that will rock Baltimore just as much as it rocks Omaha or anybody else, any other district bank. And so I can tell you that the testimony is clear that the better borrowers in PCA's in the three under liquidation in Montana, are going to commercial banks by a rate of 50 percent. Now, that means that the only way to retain that 12th Intermediate Credit Bank is to regenerate the confidence in those borrowers so you get them coming through the doors and wanting to do business.

The other part is that these borrowers strongly feel that the problems of what goes wrong with PCA's generally lodges with the intermediate credit bank in Spokane. I suppose all intermediate credit banks have to approve all loans that are in that narrow range of jeopardized loans, classified loans and, second, those loans over $250,000 which is not an uncommon amount underlying the credit for borrowers in the 12th district,

So they find they want to have control over their own business. They think that the Spokane officials made a major blunder since all the losses in one PCA in particular under liquidation, and practically all the losses in the other two that are under liquidation in Montana were rubber stamped and approved by the Spokane Intermediate Credit Bank officials. They view S. 466 as a further tightening of the power of the intermediate credit banks to direct, and they are not trusting the intermediate credit banks at this stage.

Mr. SWACKHAMER. Clearly, as you know, a lot of actions have been taken in the Spokane Farm Credit District.

Senator MELCHER. They are not trusting and they are not going to trust it until it proves itself.

Mr. SWACKHAMER. I think there is evidence that all of the farm credit banks have supported those actions. They have been severe to the extent that they have led to removal of a board of directors, they have led to a change in management, they have instituted covenants and a very significant agreement for financial support. The entire Farm Credit System will provide up to nearly $300 million of support long term to assure the continued access of credit to farmers in the Northwest. The cost to us in Baltimore is the equivalent of one man-person per month, salary, and benefits. That is being done to benefit American agriculture.

But, as you heard in the testimony, Mr. Chairman, the problems that we are facing are not Farm Credit System institutional problems. They are the industry of agriculture problems, and we do not see any significant evidence that those problems are going to turn around or the conditions are going to improve so we are preparing for a long, hard, corrective process, and I would like to be able to give you assurance that it is going to get better but we do not see that in the immediate future. So I think we are beginning, only beginning maybe to experience some of the tough problems of the agricultural credit industry and agricultural borrowers in the United States.

Senator MELCHER. I understand the major problem is improvement in farm income which means an improvement in commodity prices. I am trying to help you get to that point, and hope we get to it quicker than Mr. Todd's testimony indicated. But, Mr. Todd, might I ask you to respond. Is it one Omaha PCA, O'Neal PCA, in trouble and being liquidated, or do you have more?

Mr. TODD. Yes, Senator. We have two PCA's in the Omaha district, both in the northeast part of Nebraska.

Senator MELCHER. O'Neal and what?

Mr. TODD. Valentine.

Senator MELCHER. That is one in the Sandhills and one almost in the Sandhills.

Mr. TODD. In the northeast part of the State, and they are bordering each other.

Senator MELCHER. What do you say about the point I have raised on B stock?

Mr. TODD. You have raised a very good point and a point we have discussed in the Omaha district. We have had a long discussion on this, and you have very adequately expressed our major concerns that if we do not have borrower confidence and we do not have the competitive rate, we will not survive no matter how you are structured financially. If you do not have that borrower confidence and you are not competitive, you do not survive. That is why we in the Omaha district have gone to common management, common territories, to try and get leaner, more efficient delivery of credit to agriculture, also to better utilize the higher, more capable people we have and identify them in our districts and put them in control or to have more responsibilities.

Also when we discussed the requests of these two PCA's to liquidate, the last thing we wanted to do was impair B stock because of the image factors that that has on possible runs on other associations and concerns borrowers have on their investment, and very rightly so. But when those boards came to us in the Omaha district after realizing their PCA's were no longer viable and requested voluntary liquidation, that takes approval of the Omaha district and, in turn, takes approval of the FCA, and FCA in their interpreting of the laws and regulations would not approve of the liquidation without the B stock being impaired. That is the way the law is stated, and that is the way it has been interpreted for us. We would hope there would be some means of ensuring or guaranteeing or helping to preserve that full value of that B stock.

Senator **Melcher**. Then cooperate in drafting the language because I think through cooperation you will get better language than if this committee just takes it on itself to become experts in what language is necessary.

I just want to make one final observation, Mr. Todd. Since the first of the year, I have become convinced that there is no other way to go than to immediately provide the requirement of B stock not only being repaid but guaranteed for the future. That is fundamental, because a PCA is nothing without borrowers walking through the door. What could cement the final chapter of PCA's in this country would be a continuation of the drift we are having right now where the good borrowers get out while they can and redeem their B stock and turn to commercial banks. After all, that is the major part of the borrowers that are in PCA's. They are good solid borrowers who really can get commercial loans just by walking across town or driving to the next town and going to a bank.

I think that in selling this paper you do not need have any more huff and fluff pieces which I suspect was handed out by some public relations fellow in the Farm Credit Administration, the likes of which showed up, I think it is now, about a month ago as a little scribble in Time that says the Farm Credit System is in wonderful shape because the last paper we saw sold at a fraction of a percent lower than the previous sale. The fact was that the paper that was sold was of such narrow volume that the institutional buyers that liked to buy this paper just habitually buy some when it is offered and bought some and bought up all that was for sale. I suspect if there is much more of this concern over B stock and the soundness of PCA's that the paper will sell at much higher rates of interest before the year is out. And that, again, takes away any possibility of the competitiveness of the Farm Credit System.

It affects the Bank of the Cooperatives. It also affects naturally the land loans, the Federal land loans.

So as one who really believes that the Farm Credit System is a bulwark of providing competition to banks and is absolutely essential for American agriculture, and that is what I believe, I think we have to act and act in this farm bill to put in the necessary amendments. Or if we can pass S. 466 separate but know we are going to pass it this summer and it is going to become law. But some way or the other we have got to pass these corrections in the next few months. I certainly hope that I find that we have got the cooperation of the Farm Credit Administration and the Farm Credit Council so we actually put in the right kind of languge and make it become law.

Forgive me if I seem to be preaching to you, but really I am appealing to you to cooperate with us at this particular point in time because I think what we do on these matters in the next few months is entirely critical for the very future of the Farm Credit System.

Mr. **Todd**. I agree with you, Senator, and I sure appreciate your support on behalf of the Farm Credit System.

I would like to make a comment personally on how I feel some things are needed and the reason I state that is because I think many in the system will feel the same way. But the system has not really come up with a position statement on it because, as you are aware, I think 11 of the 12 farm credit districts have gone to common management, common territories, which has been a great advantage to many who have been that way for a number of years, and more of them are seeing those advantages and some are in the process of accomplishing that.

But I feel as the Governor spoke up earlier that on the security of our bonds, we do have net worth in the system to secure our bonds because we do have a loss sharing agreement and we all signed the note for the security of our bonds, but we do have the trouble spots throughout the country where we have more stressful conditions in agriculture than others and the assets have deteriorated and the requirements of credit and capital structure of that particular association or district has been greatly impaired.

We do need some means of better utilizing the capital in the system. There has been talk all the way from merging unlike banks to merging of associations, all the way to infusion of Government capital. But I personally feel from my own feelings that we need to do all we can to help ourselves.

The first thing is to go to common management, common territories. The second thing would be to pursue legislation to make it possible to merge the capital of the system, which would really help us to help ourselves. Then if the economy continues to deteriorate after we have done everything to help ourselves, we may have to look to Congress for infusion of capital from them. But I think that would be the proper approach and proper steps to take. I am speaking as a farmer who has been a long-time borrower from both PCA and the land bank.

Senator MELCHER. Thank you very much, both of you.

Senator ZORINSKY. Do you think the value of agricultural land has bottomed out yet?

Mr. TODD. I thought maybe it had last spring. In our particular area—I cannot speak for the whole country—but in the area I am familiar with, and then when we had the discussions come out about the farm program, the administration's farm program proposals, there was a complete lack of confidence on behalf of farm owners of what the return on their investments could be and the price of commodities which directly affect the price of real estate. Then I think there was a lack of confidence and another downward spiral in real estate values at that time. In many places there is no market.

I would say in the four States I represent, in Iowa, Nebraska, South Dakota, and Wyoming, that we have from 30 to 50 percent, some places greater than that, devaluation of assets.

You asked what it is going to do from here on. I would say that the commodity prices will have a great effect on that and lack of confidence. Land has devalued to the point in many places where it has reached the place to where it would cash flow or very close to it. But even when land is put on the market at that price, there is not a buyer because of lack of confidence in what the future of income or return on that would be. I think that is the place where this Agricultural Conservation Corporation could be of great help in that this does not put a bottom under prices, but it does give a place for those individuals to liquidate some land. Also they buy stock back into this corporation to help guarantee it. But it gives them a means to maybe liquidate a part or portion of their loan portfolio so they can stay viable.

Also in talking with some real estate agents about this problem, they have mentioned that they had many investors outside of agriculture and also those in agriculture who are willing and ready to start investing in land. But they say only let us know when it has bottomed or when it is going back up 5, 10 percent. I think if you had something like this Agricultural Credit Corporation in place, it maybe would not even have to be utilized to the extent that it might be set up to be utilized because—I do not want to call them vultures—the people sitting there waiting to take advantage of somebody else's misfortune, if they could see that there was some other corporation or entity and this land would be going off the market, I think this would help a lot of private investors.

Senator **Zorinsky**. In the free enterprise system, they are termed opportunists.

Mr. **Todd**. Your terminology, being a Senator, is probably much better than mine.

Senator **Zorinsky**. Thank you very much.

I would like to call upon Corky Jones, national president of the American Agriculture Movement.

Is Eugene Severens here? Would you like to come up to the table?

Mr. Jones and Mr. David Senter of the American Agriculture Movement, do you have a statement you want to have included in the record?

STATEMENT OF CORKY JONES, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, ACCOMPANIED BY DAVID SENTER

Mr. **Jones**. I think we did four with those, Senator. I do have a couple of extra copies if you do not have one before you, but we did submit several copies.[1]

I would like to express our pleasure once again to testify before you, Senator Zorinsky. We appreciate the opportunity. And as I said, we have given you copies of the statement.

But, once again, I would like to once again speak from the heart and speak about the problems that we have in agriculture. We have listened to quite a bit of testimony this morning and the concerns of different people and different entities are quite different as you go along.

My concern definitely is from the farm side. I am a farmer with three sons farming in Brownville, NE, where we have cattle, hogs, corn, and soybeans. And I am also the president of the American Agriculture Movement.

The dire need and the crisis for credit is evident. Once again it is kind of like putting the fire out in a burning building. The problem will not be alleviated in the burning building with throwing a little water over the top of the flames. It will suppress them, but until you get to the basic building and put water on the burning base, it is not going to go away.

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[1] See p. 845 for the prepared statement of Mr. Jones.

What I am referring to are the problems here and the cause of the problems is no profit in agriculture. The lending institutions here that have testified today would not have a problem, there would be no need of this entire hearing if we would have had a profit in agriculture.

We have had failing leadership and failing policies in the past. We are here and have been in the American Agriculture Movement by the masses in the past month. We are here for the full week again to lobby for substantial farm programs.

The program that is going to do this sector of livelihood, this sector of agriculture, as well as the entire economy of this Nation any good whatsoever is going to have to have price, price in it that is going to cover the cost of production. That is the only opportunity that we as producers have to price our own product, and that is through legislation.

We have had the capability of pricing our own taken away from us.

When we are talking about credit, which we are here today to talk about, I am from Nebraska, as I stated, and by being a leader in the American Agriculture Movement and a fighter to correct injustices, and this is what the American Agriculture Movement has always been, we receive calls at our national office and I receive calls at my office at home and at night at home, not just one once in awhile, but continually by the hundreds per month of people in dire trouble, people who are telling me, and I can verify this, that the supposed programs offered by the administration are a hoax. It is a fallacy. They are out there by the hundreds that fill out papers, fill out the forms and go to the FmHA. A phone call will follow that one and how you are doing. In 30 days, you will get notice that you need to fill out more forms.

In one case that I personally know of, the 1983 disaster loan has not even been granted for the disaster of the flood and drought area in Nebraska. It has not been denied. It is just continuous. You have to fill these forms out, and here are some more.

When we are talking about operating loans, our colleague and representative, Don B. Reiter, made the statement in our local papers that they would be out, all operating loans would be out and taken care of and in the producer's hand so they could go in the field in 5 days. Definitely that everything would be taken care of by May 1. Once again, a fallacy. A fallacy of mass proportions.

I can personally account for a farmer in our area, and I was driving down the road, and as I looked out, here he come walking back from his tractor just sitting out in the field with a disk behind it, and I stopped. Your tractor broke down? He said no. What is the problem? That is all the fuel that I had. I said, well, I will take you to the house and you can get some more. No, I have no funds. I have no financing. I am waiting for FmHA, and that is all the fuel that I have. There sits the tractor. He is done.

Another farmer in the same week pulled in his drive and he is pumping or draining the fuel out of his combine to pour in his tractor so he can make that mark, and that is all the fuel he has. It is crucial.

The administration's proposal as far as their loans and what we are supposed to be getting and what we read about getting and what we watch on the television and the entire news media says that we are getting, the big grants and the big loans and everything, it is not there. Not just in one or two cases, but by hundreds. Not just in southeast Nebraska but every State across the Union.

We have got contacts with many people across the Nation. We have had a farmer that has been foreclosed on halfway across the State of Missouri, and I was visiting with him. He came in, and he is also in the American Agriculture Movement, but they set up a program, and he and his wife and daughter set up a program to help, just aid the people who are applying for FmHA loans.

I will guarantee you that you cannot get an FmHA loan if you simply fill out the forms and do it yourself. Correction. Of the 300 loans that they have been working with in the past, the average age of these people are not what we hear once in a while, about the poor overextended farmer, and the poor managers, and the really young that are getting started, and maybe increased their operation, to buy equipment or land. The age of these people, average age, of the 300 they were working with was 55 years old.

And in reviewing these cases, they go back 10 years, and look at their entire income, their operation, and they are not bad operators. They never have been bad operators.

Sure, you are going to have one once in a while, as in every business, but that is not the case today. If your only source of income is from the land, you are in trouble as soon as you are borrowed up and used up your equity, and are continuing to produce. You are a problem, and you are going to become a poor, inefficient manager. You are going to be sold out by the masses across this Nation.

What I am saying to you today is that there is nothing more critical, there never has been any legislation ever come out in Washington, DC, for the future of this country more important than the 1985 farm bill, and if it has not the capability of having a price for agriculture, the price that gives us the capability of having a profit, this Nation in its entirety is going to fall down around our ankles.

These committees that we are at today have the power to do exactly what we are here to do, and that is to have legislation passed that prevents this from happening, and goes ahead and puts this Nation, as it was founded, for the strongest, best Nation in the world, and keeps it there, because it is going the other way fast.

I would like at this time to let David Senter read our solutions, or what we feel would be helpful, and if there are any questions, we will both be happy to go ahead and try to answer those.

Mr. SENTER. Thank you, Corky.

Senator Zorinsky, the American Agriculture Movement, first of all, we believe that there has to be an across-the-board rescheduling of farm debt on a case-by-case basis. Every operator, every operation, every loan has a different set of numbers and requirements and needs.

We believe that in order to stabilize the foreclosures, and the people leaving the land, we have to reschedule this debt into a single loan with a pay back period where the debt operator can cash flow out.

This will also cut the workloads substantially in these county offices, because each borrower has disaster, EE, operating and ownership, and each one of those has a separate loan, with all the paperwork. With the rescheduling he is dealing with one loan.

Second, we continue to find that over half of the problems that we receive from borrowers, in our opinion, can be solved by having a referendum elected county committee. Time and time again you find the areas where the supervisor has recommended appointees to the county board. They are handpicked, they are good old boys, and they rubberstamp what that supervisor does.

We are strong supporters of the ASCS committee system. We believe that is why the programs are operated, and in our opinion, they do the best job of any of the Government programs we get, because that is because the cream always rises to the top.

If you have a referendum of these county boards, you will elect top people to serve on them, and we believe that they should be an operating, functioning loan committee.

Second, we believe those three elected people would then in turn appoint one elected public official, and one from the financial community, be it a banker, PCA, whatever the situation, so you have a balance on that committee. It appears to us we could solve over 50 percent of our problems by doing that in these local offices.

Third, Mr. Naylor, he continues to talk like there is no problem, that we are taking care of all the borrowers. Time and time again we come across cases every day where FmHA refuses to take applications for new borrowers. They must take applications from new borrowers. If they qualify, FmHA should finance that operator, because when the PCA's go under, when they are moved out of the private bank, unless FmHA takes these new borrowers, they have nowhere to go, and in many cases they are financially in a lot better shape than most of the customers with FmHA.

Second, Corky was talking about the fact that he is still working on a 1983 disaster loan. That is pathetic. It either needs to be told, yes, you are going to get it or, no, you are not going to get it, in a timely fashion. He still really does not know if he is going to get it or not. The papers have been in the mill for a year and a half.

We believe that on emergency disaster loans, on emergency loans, economic emergency and operating loans, any loan not acted upon within 60 days should automatically be approved. These borrowers have got to be told in a timely manner, yes, you are going to get your loan, or, no, so they can make other arrangements, instead of struggling along, and parking the tractor in the middle of a field with no fuel, and probably be turned down at a later time.

We request to increase the staff capabilities and that ASCS staff be used. Right now the Farmers Home Administration figure their own yield history on the farm. Why do they not use ASCS yields? These people know how to do cash flow sheets. They know how to figure all of the things that are required in working on FmHA loans.

Instead of hiring these people who know nothing about farm lending, or the farmer's business, why do you not utilize some of the staff capabilities in ASCS, to do part of the paperwork, to expedite these loans?

Those are our recommendations, Senator, and we appreciate the time, very much.

Senator **Zorinsky**. Thank you, David.

We have had a request from Senator McConnell that his statement be included in the record, and without objection, that will be done.[1]

Mr. Severens, would you care to make a statement?

Mr. SEVERENS. Sure. Thank you very much, Senator Zorinsky.

I believe I have submitted a statement to the committee staff. I would like to have that entered into the record.[2]

Senator ZORINSKY. Without objection, it will be included in the record.

Mr. SEVERENS. One thing that is included in that statement is a summary of our proposal for reforming the Farmers Home Administration. One thing that is not a part of it is the complete copy of the proposal itself. I do not know if you wish to have that entered in the record or not, Senator Zorinsky. It is fairly large. I brought several copies of it. It has been distributed to some people.

Senator ZORINSKY. Without objection, the material will be retained in the committee's files.

STATEMENT OF EUGENE SEVERENS, REPRESENTING THE CENTER FOR RURAL AFFAIRS, WALTHILL, NE

Mr. SEVERENS. There is a brief, even briefer summary of it on the first page of my testimony.

My name is Gene Severens, with the Center for Rural Affairs, an organization in Walthill, NE. We have devoted a considerable amount of our attention to farm credit problems, and have been analyzing the policies and practices of the Farmers Home Administration for over 7 years.

The center conducts a credit counseling service for farmers in our local area, and has prepared the "FmHA Farm Loan Handbook," a comprehensive guidebook for FmHA borrowers and their representatives. We also publish "FmHA Information Alerts," which are one page policy analyses, available without charge to those responsible for and interested in FmHA policy implementation and directions

More recently, in the document I just handed you, we have prepared a comprehensive set of FmHA Farm Program reforms. In brief, these reforms would reinforce current programs for efficient family-sized farms.

At the same time, they would reduce current programs open to operations, which are larger than family-sized farm operations. As a result of that reduction they would save the Government approximately $30 million, by reducing the scope of the subsidized lending in that program.

Fourth, our proposal would create explicit authority for the preferential lease and sale of FmHA farmland inventory to farmers who qualify for FO or OL loan assistance.

Finally, there are a number of selected reforms which we are advancing, reforms of selected procedures, which in our opinion, and in our experience, hinder the fair implementation of FmHA programs.

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[1] See p. 806 for the prepared statement of Senator McConnell.

[2] See p. 849 for the prepared statement of Mr. Severens.

As I have indicated in the subtitle of our paper, toward the bottom of the page, we think that FmHA's basic programs are needed now more than ever. There are at least two stages to the current farm crisis.

The first is the current stage of farm liquidation. The second is the rebuilding of farms, and the restructuring of agricultural assets that will inevitably take place after the current liquidation crisis subsides.

Most of the policies and practices that we have been considering for the last few months address primarily the first stage. There are emergency measures designed to alleviate some of the hardships, and to control some of the causes. These are important.

However, it is the policies and programs which we develop for the second stage of farm rebuilding that is in many ways more important. These second stage programs will determine which farms will be able to participate in the rebuilding of American agriculture.

FmHA's basic programs will be needed during that second stage more than ever in the agency's history. The policies for that second stage need to be fashioned now.

Fortunately, the current desperate condition of agriculture has prompted new and creative responses. We have heard many of them here at this table this morning, but we should not mistake emergency measures as substitutes for FmHA's proven and longstanding basic programs.

For example, while I think there is a place in FmHA's program, it is a stand-in program, and provides no basis for dismantling FmHA's direct, insured lending. Guaranteed loans, by definition, serve a select, better off group of FmHA's clientele, and at greater public expense.

We estimate that for the same level of appropriation, guaranteed funds will reach only one-third to one-fourth as many farmers.

In addition, access to guaranteed loans is largely controlled by lenders who, facing their own financial difficulties, will be tempted to channel FmHA guarantees to serve their private interests, than than those of all qualifying farmers.

Mr. Chairman, we need to return FmHA to the basics. We cannot afford the notion that FmHA can be the lender of last resort for every farm in America. In facing both unprecedented budget deficits and the critical farm rebuilding stage, we need a lean agency equipped with defensible public purposes and affordable programs.

In short, we need an agency that can distribute its finite lending assistance to as many efficient family farms as possible. Our reform proposal would help achieve that end, by maintaining a strong Direct Lending Program, including the Limited Resource Program, and by adopting modest individual loan ceilings in all programs, to make sure that FmHA's limited assistance serves as many efficient farms as possible.

I might make note at this point, Senator Zorinsky, that just yesterday the House Agriculture Credit Subcommittee unanimously adopted an amendment to their markup bill, which would limit natural disaster emergency lending to family-sized farms. I think this is exactly the kind of reform that is needed.

Before closing, I would like to say a word about FmHA's farmland inventory, and it relates somewhat to the plans of the Farm Credit Council, and their Agricultural Conservation Corporation.

As you know, FmHA farmland inventory is growing. The disposition of this farmland through sale and leasing should be consistent with FmHA's basic purposes.

In short, the inventory farmland should be leased or sold to family farms through the FO or OL programs, as appropriate. Where the tenant or owner-operator applicant qualifies for the Limited Resource Program, the land should be leased or sold at the appropriate reduced interest rate.

Land prices are low. We have almost reached the point where you can pay for land by farming it. This reform would put FmHA programs in the position to help efficient family farms rebuild, or get started at just the right time.

Thank you for this opportunity, Senator.

Senator **Zorinsky**. Thank you, Mr. Severens, and thank you, Corky and David, for your fine testimony and articulate presentation.

Senator Dixon has requested that his statement be included in the record and, without objection, that will be done.[1]

At this point, the committee will take a short recess. Then the hearing will be resumed.

[Short recess.]

Mr. **Weatherly** [presiding]. I apologize that the Senators had to necessarily leave for other commitments. We will proceed with the rest of the witness list.

My name is Keith Weatherly. I am with the majority staff of the committee, and I do apologize for any inconvenience to our witnesses. I know many of them have traveled long distances to present their testimony before this committeee.

Please rest assured that your prepared testimony, as well as other statements that you care to make this morning will be entered into the record, where Senators and others will be able to review them at a later date.

I believe Mr. C.R. Johnston, representing the American Farm Bureau Federation, had to leave to catch a flight. His testimony will be entered into the record.[2]

William Duncan, representing the Rural Coalition, is here.

Please come to the table.

As well as N. Rollie Lake, representing the Communicating for Agriculture.

Mr. Duncan is executive director of the Mountain Association for Community Economic Development, Berea, KY, and also serves as cochair for the Community Development Task Force of the Rural Coalition.

N. Rollie Lake is president of Communicating for Agriculture, from Fergus Falls, MN.

Welcome, gentlemen. Please proceed, Mr. Duncan, with your testimony.

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[1] See p. 805 for the prepared statement of Senator Dixon.

[1] See p. 852 for the prepared statement of Mr. Johnston.

You may present whatever you have, or summarize, as you desire.

STATEMENT OF WILLIAM A. DUNCAN, PRESIDENT, MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, BEREA, KY, AND COCHAIR, COMMUNITY DEVELOPMENT TASK FORCE, RURAL COALITION

Mr. DUNCAN. Thank you.

I have supplied a copy of my testimony for the record, and I would like that to be entered, and now I will just summarize it briefly.[1]

In contrast to the others, I am discussing Farmers Home water and wastewater program primarily, and the need to maintain it at current funding levels.

My name is William Duncan. I am president of MACED, M-A-C-E-D [Mountain Association for Community Economic Development], an organization in Kentucky.

Reliable access to safe drinking water is essential for the rural communities we work in, but is unavailable to the majority of households. So the MACED staff undertook a study to find out what the obstacles were, and how they might be overcome.

Our study covers drinking water conditions in a 21-county area of southeastern Kentucky, in the principal coal mining area of the State.

It says several very important things about the state of drinking water supplies in isolated, limited income rural areas. We think that these conclusions are directly relevant to what the committee should do about continuing and improving the water and wastewater grant and loan programs in the Farmers Home Administration.

First, the Farmers Home programs must be reauthorized, and at no less than the current funding levels. Southeastern Kentucky will make no further headway in solving its serious drinking water problems unless these programs are continued.

Second, the Farmers Home programs have worked well in our area because of several crucial factors: Extensive grant and below market interest rate loan support, a successful attempt to reach those communities that need help the most, and limited but active technical assistance programs conducted by groups outside Farmers Home Administration, as well as by local FmHA staff. The law should be changed to ensure that these factors are available in every State. We urge the committee to approve the detailed legislative changes we are proposing along these lines.

I will describe briefly what is going on in southeastern Kentucky and its implications nationally. The areas we are talking about are very poor. Twenty-five percent of the people live in poverty, a 12-percent unemployment rate, as compared with the national rate of 7 percent; 20 percent of the households are without plumbing.

Increasing industrial activity, as well as population growth, have put serious pressures on the quality of ground water. It is heavily contaminated with fecal coliform. This is attributed to the lack of sewers, and adequate soil for efficient septic systems.

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[1] See p. 853 for the prepared statement of Mr. Duncan.

Coal mine blasting can fracture rock layers, causing water tables to drop, so 60 percent of the people who are on wells, no longer have access to adequate drinking water.

We have made progress in the last 20 years getting drinking water to more families. In 1960, only 27 percent of the households in the area were on community systems. Now with a much larger population there is 41 percent of the households on community systems, 77,000 households out of 150,000, 160,000 perhaps.

Progress has been made only because of programs such as the Farmers Home Administration's water and wastewater program have been available to supply grants and low interest loans. Two-thirds of the new water systems begun in our area in the last 2 years are funded by Farmers Home Administration. They are supplying 42 percent of the funds. The only reason the number is that low, that is, two-thirds, is that the Community Development Block Grant Program is supplying the rest of the money; 98 percent of the money that goes into the systems in our area is Federal money. There is no other way any system can be built.

There are people who feel that it is time to turn this kind of financing job over to the private sector, or the municipal bond market. Our study shows that rural people in Kentucky simply cannot afford the cost of borrowing those funds, even if they were available for these projects.

For instance, right now average bills are about $16 a month, compared to, say, $12.75 in the rest of rural America. We ran a comparison, substituting 9½ percent municipal money for the Farmers Home money, as to what the effect would be; 9½ percent is lower than most communities could get, but if it were available, it would increase monthly bills—by the way, the $16 is for existing systems, and any new system being built has a monthly bill around $24.

So if in those new systems being built, we used bond money instead of the Farmers Home money, that bill would go up to $56. If we substituted bond money for all the Federal money in local systems, the bill would go up even much higher.

The important point here is that not only do we need to maintain the Farmers Home programs, but reform the way in which they are run, to conform more to the way in which it happens the Kentucky program has been run.

The Kentucky office has been willing to make low market rate loans and grants in a way which would reach the poorest communities, and they have actively tried to assist those communities that need the help the most, either because they have serious contamination crises, or for other reasons, and there has been technical assistance available, not only from a strong and heavily experienced Farmers Home staff, but also from rural water technical assistance groups.

In our area, Farmers Home funded the Kentucky Rural Water Association, and it plays a very important role, and there are several other nonprofit management assistance groups available.

A detailed analysis of the Farmers Home programs across the country shows that these elements, so critical to the success of the programs in our area, are not always available.

For instance, a preliminary look at data from 12 States indicates that while the average income in communities funded by Farmers Home in Kentucky is 76.4 percent of the statewide average, it is much higher than that in most other States. And, while the Kentucky Farmers Home office uses the grant funds to the extent that they comprise 42 or 43 percent of the total funding they put out, thus allowing them to reach poorer communities, most other States do not do nearly as well.

My written testimony includes a table which demonstrates that.

We support the legislative proposals being made by the Rural Coalition, and others around the country, such as Senator Zorinsky cosponsored last year, as a matter of fact, to ensure that the elements which have made the Farmers Home water and sewer programs work in our area are available elsewhere.

Thank you.

Mr. WEATHERLY. Thank you

May I ask a couple of questions? What other State and possibly local programs are there to help with building water treatment facilities? The local level might not be exactly practical, but what about the State level?

Mr. DUNCAN. The only source of support from a State level would be the bond market the same as it is for the community. The cost of money when they get there is the same as it would have been for the community; whereas, a community with 100, 500, 1,000 connections on a system has no way to get to the bond market so the State can get there. But when it gets to the community, it is the same price, which prices the system out of access to residents.

Mr. WEATHERLY. How many dollars a month would you say that increases each customer's bill?

Mr. DUNCAN. Well, depending on how much you replace, how much of the currently subsidized money you replace with bond money, a current bill which is $24, which is already twice about what people pay typically in rural America, would double. And then if you replace all the Federal money, it would become 56 percent. If you replace all that Federal money with bond money, $56 rather than even $48. So it would be dramatic.

Of course, that would not happen because you just could not build the systems. But 60 percent of the people on wells and a public policy which allows contamination of ground water in a way that did not use to be the case, so where you used to be able to depend on wells, you cannot any more, so now there is the bulk of the families without access to drinking water, and the simple mathematics make it clear that the only way they can get it is with some combination of subsidized funds.

In the case of water and wastewaster, the Farmers Home has a history of leadership and has been the foremost asset in getting water and wastewater systems built in rural Kentucky, followed by for the value of the bulk of its dollars the Community Development Block Grant Program.

Mr. WEATHERLY. From your experience with the way the program is being administered in Kentucky, what is the percentage of grant funds to loan funds that they are utilizing?

Mr. DUNCAN. Of all funds going out, 43 percent are grant funds and the remaining are loan funds.

Mr. WEATHERLY. Are you aware of any communities that are looking into other than central water treatment facilities? I think there are several associations looking into the possibility of individual treatment units.

Mr. DUNCAN. Yes. You are talking about water supply or wastewater here?

Mr. WEATHERLY. Water supply.

Mr. DUNCAN. People as far as treatment at an individual level goes, people buy filters for their wells and they do the best they can, but managing them individually is inefficient, expensive, and it takes skills that most people do not have and attention that does not end up getting paid.

So if you use a filter on a system and it is not maintained with the cost and attention that it requires, then it does more harm than good because the contaminants catch in it.

Mr. WEATHERLY. Do you have any other comments in summary?

Mr. DUNCAN. No.

Mr. WEATHERLY. Thank you, Mr. Duncan.

Now, Mr. N. Rollie Lake, we look forward to having your testimony. You can present it as concisely or as completely as you like.

STATEMENT OF N. ROLLIE LAKE, PRESIDENT, COMMUNICATING FOR AGRICULTURE, INC., FERGUS FALLS, MN

Mr. LAKE. Thank you, Mr. Weatherly, and other members of the staff for hanging tough. I know it is not easy when you see everybody walk out. We appreciate it.

My name is Rollie Lake and I am president of Communicating for Agriculture.[1] I am a farmer and for 20 years I was senior vice president and director of the First National Bank of Fergus Falls, MN, where I had the responsibility of farm credit.

My purpose here today is to present one part of our three-part special farm program by Communicating for Agriculture which has been submitted in full to this committee. Part 1 is the IFA Act, and the second is the Crop Price Insurance Program.

Today I will give you only a brief summary of the third part, the CA Modified Debt Recovery Program which most of you here already have seen or heard of, which is a debt restructuring proposal, and this program has already been introduced in both the U.S. Senate and the U.S. House of Representatives. Senator Durenberger has placed it in the U.S. Senate and Representative Stangeland has placed it in the U.S. House of Representatives.

I want to stress that our CA Modified Debt Recovery Program is in addition to and not in place of the President's program, and that we are pleased with the modifications of the President's program.

The main impact of our program is that we take things already on the table and bring them together for a workable program to help the stress we have today in agricultural credit. Our program uses the expertise of the private lenders and the lending authorities of the Farmers Home Administration. Our program brings both the expertise of the private lenders and the FmHA loans to the center of the table, letting the people of the private lenders do all the paperwork and still leaving the final judgment of granting funds to the Farmers Home Administration.

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[1] See p. 856 for the prepared statement of Mr. Lake.

Under Secretary Frank Naylor has stated that they plan to transfer none of the workload of the FmHA to private sources. The CA Program does just that by expanding the approved lender program to allow more lenders to participate in the ALP, by changes that have already been made, changes in the loss history from 3 to 5 years, and by allowing lending experience to replace educational requirements, by allowing nonqualified lenders to contract with approved lenders to handle their loan programs.

Our CA Program would transfer all the lending authorities of the Farmers Home Administration to the desks of the private lenders, leaving final judgment to the Farmers Home Administration. And the operating loan authorities we are talking about are the Insured Lending Program, the Limited Resource Loan Program, and the Farm Ownership Loan Program.

By adding these loan authorities to the already guaranteed loan program, we can move more into the private sector area, and with certain modifications that we state in our full testimony, we feel our CA Modified Debt Recovery Program deserves the full attention of the U.S. Senate.

So I want to thank you gentlemen for the opportunity to testify.

Mr. **Weatherly**. Thank you very much.

Mr. Lake, do you have a cost estimate of what your modified Debt Recovery Program would cost?

Mr. **Lake**. Yes. There will be lending authorities needed of $3 billion additional and an annual cost of $42.5 million. This is put together for us by the economic prospectus people here in Washington, DC.

Mr. **Weatherly**. $42.5 million you anticipate would be the direct cost of the outlays?

Mr. **Lake**. The cost of loan losses in the interest subsidy part.

Mr. **Weatherly**. From your experience in dealing with the current Guaranteed Loan Program would you have any suggestions to make as to how this program might be modified to make it more attractive for commercial lenders to work with borrowers?

Mr. **Lake**. Last Friday, we met with a group of independent bankers up in St. Paul, MN, and the big thing that we find is the amount of paperwork that is required, and then also the limited personnel that Farmers Home has available to work on the applications that they have in.

I did call before coming yesterday. I did talk to seven supervisors for the Farmers Home Administration, and all seven of them are more than overloaded with workload. We feel if the paperwork could be transferred to the private lenders and leave the judgment of the granting of the funds to the Farmers Home Administration that would help the situation greatly. But we do feel that there is not an awful lot of backlog that they just do not want to attend to.

Mr. **Weatherly**. So, your recommendation would be to improve the Approved Lender Program so that loan processing can be expedited.

Mr. **Lake**. I want to say what we cannot understand is why bring all of the Farm Credit people in as approved lenders and not allowing the same authority to the bankers? That is beyond us. That should be done.

Mr. **Weatherly**. How many commercial bankers have already been approved as approved lenders in Minnesota thus far?

Mr. **Lake**. Well, our State director maintains he deals with 300 which includes the PCA's and the Federal land bank, but where we have 11 banks in my county, 3 of them would be qualified for approved lending and just 2 so far have received their certificates of eligibility.

Mr. **Weatherly**. The banks themselves without including the Farm Credit System?

Mr. **Lake**. Right. We really feel that is a big drawback as far as timing is concerned. And if there could be some time stipulation put in there where they have to approve in a certain amount of time and also approve a loan in a certain amount of time, that would be better.

Mr. **Weatherly**. Is that a problem in Minnesota, getting the actual applications of approved lenders processed? I know we have heard from the administration before that they did not see that as a real problem. But the bankers have an interest in being certified as approved lenders and they are just not having their applications processed.

Mr. **Lake**. Very definitely. And the one thing I look at is on down the road we cannot see solutions to the problem so far, and there is going to be more need for expertise as far as agricultural credit people are concerned and the Approved Lender Program seemed to be the way that we are leaning, and I think more work done on that should make it easier for a lender, for example, to become an approved lender because next year and the following years I think they will be used.

Mr. **Weatherly**. I see.

Well, we are certainly impressed with the amount of work that you and your association have done. I have enjoyed talking with you on several other occasions about your study and your proposals.

How many groups have endorsed your modified Debt Recovery Program?

Mr. **Lake**. In Minnesota, all the major farmer organizations, the Farm Bureau, the Farmers Union, and 14 commodity and farm-related organizations have also introduced it. As far as on a national basis, in the State of Iowa we have the majority of the elected representatives from Iowa, Minnesota, and so forth, North Dakota, that have endorsed our program.

We do feel that some of the work already being done by the administration is part of what we have come to Washington with last October, so ours could be done administratively without legislation if they would go that route.

Mr. **Weatherly**. Do you have any other comments you would like to make?

Mr. **Lake**. No.

I thank you for hanging tough.

Mr. **Weatherly**. Thank you for your patience, Mr. Lake.

The record will remain open for 10 days for additional testimony, comments, or questions. So with that we will recess.

Thank you very much.

[Whereupon, at 1:05 p.m , the committee recessed, to reconvene at 9:30 a.m., Thursday, April 25, 1985, in room 328-A, Russell Senate Office Building.]

REAUTHORIZATION OF THE AGRICULTURE AND FOOD ACT OF 1981

General Agriculture and Consumer Issues

THURSDAY, APRIL 25, 1985

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room SR-328-A, Russell Senate Office Building, Hon. Pete Wilson presiding.

Present: Senators Wilson, Andrews, Zorinsky, Melcher, and Heflin.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator Wilson. Good morning, ladies and gentlemen.

Today marks the second to the last of a series of hearings on the 1985 farm bill. The final session, which is one of six thematic hearings is scheduled for Wednesday, May 1.

During the past 2 months the committee has met as frequently as three or four times a week, receiving testimony and recommendations regarding the 1985 farm bill. Some committee members, among them myself, have held field hearings within our respective States to ensure broad-based input into this legislative process.

It is my understanding that the committee intends to commence marking up the farm bill early next month. The testimony of the witnesses today as well as those who have preceded you during the earlier hearings will greatly assist the committee in its drafting process.

If you have a copy of the witness list, you will see that we have a busy morning ahead of us. In the interest of time I am going to ask the witnesses to summarize their written statements. Virtually all of them have provided a written statement, which of course will be made part of the record in its entirety.

Before calling on the first panel of witnesses, it is my pleasure to recognize the ranking member, Senator Zorinsky, for any statement he may wish to make.

Senator Zorinsky. Thank you, Mr. Chairman.

In the interest of time I ask unanimous consent that I submit my statement for the record.[1]

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[1] See p. 880 for the prepared statement of Senator Zorinsky.

Senator Wilson. Without objection that will be made a part of the record. Thank you, Senator.

We are expecting some of our colleagues to testify, but they seem to have been detained. We will proceed to hear from witnesses who are concerned with agricultural marketing.

The first of these is Joseph Gerace, Commissioner, Department of Agriculture of the State of New York. With him we would invite to the witness table Daniel R. Huber and Carroll G. Brunthaver. Mr. Huber is the president of the commodity marketing division, Cargill, Inc., and Mr. Brunthaver is the vice president of Sparks Commodities, Inc., representing the National Grain & Feed Association.

Mr. Gerace, we welcome you.

STATEMENT OF JOSEPH GERACE, COMMISSIONER, DEPARTMENT OF AGRICULTURE AND MARKETS, STATE OF NEW YORK, ALBANY, NY

Mr. Gerace. Thank you very much. I really appreciate the opportunity to speak on behalf of New York.[1]

When I told folks I was coming down here, they advised me there are no secrets in Washington. I am here to tell you about New York's best kept secret. And that is that agriculture is the No. 1 industry in New York. Between Broadway and Buffalo and Long Island and Erie there are nearly 50,000 farmers in New York that produce such a variety and quantity of agricultural products that New York ranks first in cottage and cream cheese; second in apples, sauerkraut, grapes, wine, maple syrup, sweet corn; third in milk, ice cream, cheese, beans, and cabbage; fourth in greenhouse and nursery products; and fifth in fresh vegetables.

I just point that out to show that agriculture is indeed big in New York. It is a $3 billion industry. The agriculture and food industries combined are a $10 billion industry. There are half a million people that are directly involved in the production and the process and distribution of food in New York.

Why am I here? Well, you heard a lot about the problems in the Midwest and in your own area. But New York farmers are hurting too. It has been estimated—and we are conducting a survey to pinpoint this—30 percent of our grape farmers are having tight credit problems. As many as 20 percent of our dairy farmers are having financial problems or difficulties in meeting their costs.

What we do know is the average net income of our 50,000 New York farmers is half of what it was 5 years ago. If you pick up the newspapers in the rural areas, you will read that there are three, four, five auctions a week of farms that had been productive the year before. And because one out of five jobs in New York is tied into food and agriculture, it is indeed a big business. Every community in the State is really affected by and impacted by agriculture.

So when you consider the 1985 farm bill, we urge you to consider it not simply as a bill that is going to help farmers but as a jobs preservation bill for every rural community.

There is no doubt that Federal farm policy and your work here is going to have an impact on New York. Dairy farming accounts for about 60 percent of our New York farm income. And that is the second most affected by whatever is done or not done here in Washington.

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[1] See p. 885 for the prepared statement of Mr. Gerace.

About 25 years ago we had about 42,000 dairy farmers in New York. Today we have 15,000. There are higher farm costs. Dairy assessments and lower prices force the dairy farmers to the auction block that I spoke of. What has happened is that we now have 400 fewer dairy farmers in New York State this year than we did last year.

And we experienced the shortage in milk, a shortage in New York of severe proportions this year. Under the program our farmers contributed some $75 million and $37 million came back to New York. But that left $38 million that we spent to pay farmers in other areas to produce.

And these are the realities that I know that you will consider as you approach the farm bill. Our milk production is down just under 3 percent the past year. In California the production was up some 3 percent. Which indicates that there has been a regional effect of the diversion bill. It has impacted severely on us in the Northeast. And I wanted to point out that.

So things do not look good. The administration proposes to cut the support prices as low as $10.60 a hundredweight. The USDA estimates costs in 1984 would be $10.73. And they won't go any lower in 1985.

That leaves the farmer with minus $0.13 to live on. You do not need me to tell you that cannot be done. More farmers are going to be bankrupt or to the auction block if the market price and if supports drop to the $7.42 level for some people.

The administration program would lead to a cycle of low prices. They would drive more farmers out of business, and then to tighter milk supplies and prices that would encourage production, and drive prices down again and end up with even fewer farmers. I have to tell you this has substantially increased hardship in our rural communities.

If I could just quickly run through my recommendations for the Federal Dairy Program and farm bill because of its importance to New York.

The 1985 farm bill should provide a long-term dairy price support program. We ask that the program assure dairy farm families of a stable price for the number of supply demand adjustments. Supply demand adjustments should automatically relate the support price of Government purchases. That would allow the support price to climb at the increase when those purchases are climbing.

And because of the regional differences I pointed out I would ask you to at least take that into consideration as you draft a bill.

We ask that you continue dairy import quotas. We ask to consider including casein under the section 22 program. We ask that you vote for milk instead of soft drinks by restoring funding for the USDA Milk Program. Revise standards for cheese imitation products. And we ask that you continue the producer-funded National Dairy Support Program, increase the dairy marketing and product development programs and export programs.

Rather than cut them, we think that we can get a bigger piece of the market that is out there.

We do ask that you do not eliminate the deductibility of State and local taxes from the Federal farm income tax. This would leave fewer dollars in New York and other States for the development of agriculture. Out of the farmers' net income, 30 percent goes to pay property taxes in New York.

We ask, of course, something that all of us, everybody is asking for, looking for, and that is the reduction of the Federal deficit. We ask that interest rates be brought down. This has a great impact in New York as well as other places.

We ask that you adopt an agricultural trade policy that would treat all commodities fairly and we advocate increases to aid programs under Public Law 480. We would ask you also to revise the costly an ineffective and time consuming antidumping petition process of the ITC. And we ask that you keep soil and water conservation on a long-term basis, and integrate it with Federal Price Support Programs through sodbuster legislation to discourage production and erosion.

We ask that you work with the States to fund an Integrated Test Management Program to allow farmers to reduce the use of huge amounts of pesticides.

Last—and maybe first for all our sakes—we do ask that you develop a long-term approach to farm policy, not only for our own security, not only for our economy, but for the stability of the peace in the world.

I urge this committee and Congress to consider making a bipartisan blue ribbon commission to recommend to you for formal adoption a long-term agricultural policy for the United States of America.

This is somewhat like the Social Security crisis a couple of years ago. I think our agricultural situation is just as serious. The American public now recognizes more than ever the role of agriculture in our national life, and we think it is a good time and good season to make a fresh start.

Thank you for increasing the President's budget allocation by 16 percent. I understand the Senate did have that effect.

Senator **Wilson**. Thank you, Mr. Gerace. If you would remain for questions, we would be grateful.

Let me now vary from the order of this panel to recognize our first originally scheduled witness, the distinguished Senator from Ohio, Hon. John Glenn, who we are pleased to welcome here to the witness table. We are eager to hear what he has to say.

STATEMENT OF HON. JOHN GLENN, A U.S. SENATOR FROM OHIO

Senator **Glenn**. Thank you, Mr. Chairman. I do appreciate you letting me testify. We do have other committee meetings this morning and I am sorry I could not be here on time. We had a meeting in my office on some of the budget matters with the National Association of Manufacturers, and we were just a bit delayed.

It is a pleasure to testify before this committee today on the research section of the 1985 farm bill. I want to commend you and the Agriculture Committee for your very extensive hearings on the farm bill, appropriate of course, because we have a new farm bill up this year. This legislation is one of the most important we will be considering in 1985.

So I look forward to working with you and other members of your committee in the coming months.

Mr. Chairman, the 1980's, to say the least, have not been kind to U.S. agriculture. Prices have declined forcing income lower. Land values have declined forcing thousands of farmers out of business. Unfortunately, this situation probably will not improve in the near future.

I wish I could be more optimistic. As a result we must provide short-term aid to address the current problems as well as devise a long-term strategy which will return profit to agriculture.

The history of U.S. agriculture reveals that farm prosperity occurs when, obviously, demand for commodities is in balance with supply. Unfortunately, there have been only two peacetime periods since 1900 when the supply and demand balanced, allowing farmers to generate profits year after year.

The first was the so-called golden age of agriculture in 1905 to 1914. The second period was in the 1970's, which I believe history will record as the second golden age of U.S. agriculture.

During the first golden age, domestic demand for food was growing at a rapid rate due to both the increasing affluence and increasing number of Americans. In the second golden age exports of agricultural products increased fast enough not only to match the increase in yields due to new technology, but also to even put back into production land which had previously been in land set-aside programs.

The fact that prosperity in the 1970's was export driven has led many farmers, farm organizations, and policymakers to argue that we need to form a strong export section in the 1985 farm bill. Now, I support such an effort. However, there are signs the export market may not provide the demand that America's farmers need. This point was recently discussed in a Wall Street Journal article entitled "Sudden Worsening of the Nation's $37 Billion Farm Export Market May Postpone Recovery in the Troubled Agricultural Market" (March 25, 1985).

The negative factors in the export market include continuing high value of the U.S. dollar relative to other currencies. In fact, I think we can see that very largely because of this distorted value of the dollar that our exports of agricultural products have gone down by about a fourth over the last 3 years. We even see one of our biggest commodity dealers receiving imports on 25,000 tons of, I believe, Argentine wheat because it was $6 to $10 a ton cheaper. They finally canceled that because of outrage in this country.

So we are seeing a difficult time because of the distorted value of the dollar.

Second, the debt crisis in many Third World countries. Third, the likelihood of slower economic growth in the 1980's. The fourth, the increased emphasis given to agricultural development by many less developed countries green revolution in many of these countries, as it has been called.

Fifth, the emergence of other countries as exporters of farm commodities. An example, the ratio of U.S. yield of soybeans to that of the rest of the world has declined from a 2-to-1 ratio in the mid-

1960's to only a 1½-to-1 ratio by 1980. This eclipse of U.S. dominance has occurred in other major field crops as well.

Just as important as the recent decline in exports has been the absence of growth in domestic per capita consumption of food products during the last 10 years. I guess you could say that we can only eat so much.

And more worrisome has been the decline in the per capita consumption of meat products, in the 1970's and for other U.S. farm products, suggesting that a near term recovery in agriculture is unlikely.

I wish I could make a different statement than that, but I cannot. Even now excess capacity in U.S. crop agriculture approaches 6 percent. Continuation of current trends means that U.S. agricultural production must shrink to bring supply and demand into balance. Proliferation of new technologies, including the enormous potential of biotechnology, reenforces this gloomy outlook.

The situation challenges us to devise a program that is forward looking and bold, to balance demand with supply, and return prosperity to agriculture. I believe a program drawing on America's unparalleled agricultural research creativity can help accomplish these goals.

We have seen research give us our surpluses. Now, specifically the program I am proposing today will develop new nonfood uses for agricultural commodities traditionally used as food or feed. To a limited degree this is going on right now.

Some examples, corn starch is being used to make alcohol, and 127 million bushels of corn are used to manufacture paper products, building materials, textiles, and adhesives. Two to four billion pounds of refined cellulose is used to produce synthetic products such as rayon and plastics. And between 3 and 5 billion pounds of U.S. produced fats and oils are used in other nonfood products.

Now, 50 years ago we could not have foreseen any of those things. When I was starting college back in the early 1940's, just prior to World War II, I was going into chemistry and studying organic chemistry. We only talked at that time, about some of the potential in the future. Now some of these are real. But I believe we have just begun to scratch the surface of what is possible.

We know that many chemicals currently made from petroleum, for instance, can also be made from carbohydrates. In fact, prior to 1950 most acetone and n-Butanol were obtained from carbohydrates. Petroleum proved to be cheaper. But because of high oil prices they have become more competitive again. However, research is needed to develop more efficient processes.

Even more potential lies in the utilization of the unique properties which natural polymers of starch and cellulose possess. Biodegradability, water solubility, water retention, controlled release of nutrients and pesticides, adhesion, and semipermeability. The challenge is to develop new processes which yield chemicals and other products that are different from but more desirable to oil-based products.

There is also the potential offered by genetic engineering which some scientists have described as molecular farming. This type of farming would use genetic engineering to program crops or livestock for the production of potentially useful chemicals and other molecular substances. In other words, specific design for a certain chemical or product we wanted at the end. Chemicals and substances would then be extracted from the crop or livestock products as one step in the processing package.

Nonfood products derived from food commodities offer not only the potential to increase demand for farm products but also the potential to reduce America's dependence on imports of certain strategic materials, particularly oil. And naturally derived chemicals provide environmentally safer substitutes for petrochemicals.

Mr. Chairman, I think we can accomplish these goals by establishing a research program to apply basic knowledge in biology and chemistry and physics to developing the potential for new nonfood products from food commodities.

This research program would be aimed at intermediate technology. That is the bridge, the bridge between basic research and product development. It is this type of research that the U.S. Department of Agriculture and the land-grant universities and colleges have excelled at in developing new production technologies. I repeat, new production technologies.

Now, we need end use research, technological development of end use of products. Research on new nonfood uses is currently being conducted at the Agricultural Research Service's regional labs. Unfortunately, it amounts to only $5 million out of a total ARS research budget of $474 million in fiscal year 1984. As I see it, $5 to $474 million is hardly a ratio that looks to the future.

In other words, we are putting that kind of emphasis still on production research and very little on end use of product research. Scattered research on new product development is also being done in the colleges and universities of our land-grant system.

However, viewed within the total agricultural research picture, expenditures on new nonfood uses of food commodities just pale in comparison to the amounts being spent by the public and private sectors on production research. This imbalance is one of the reasons that U.S. agriculture's productive capacity has outstripped the demand for its products.

Supply is being created still without the markets to absorb it. To right this imbalance I urge you to recognize the potential that exists for new nonfood products from agricultural commodities traditionally used as food or livestock feed.

To realize this potential I intend to introduce the "Agricultural Commodity Uses Research Act of 1985," which will propose a $100 million federally funded 5-year research program to develop new nonfood uses for food commodities.

Now, the design of this program is such that we hope to get far more than that $100 million involved in research. The bulk of the funds, about $93 million, would be directed to the Agriculture Research Service and competitive grant section of the Cooperative State Research Service Programs. Federal funds in the competitive grant section would have to be matched by grants at a ratio of $1 of self-generated funds to every $2 of Federal funds. Matching funds requirement will encourage recipient institutions to develop ties with private industrial concerns, thereby forming this bridge, this bond. It will improve both successful adoption of new products and the quality of long-term research.

A special research grant of $150,000 annually would establish a center at Ohio State University to study the economics of developing and marketing new nonfood uses for food commodities.

Mr. Chairman, less I be charged with overzealous parochialism, let me add that it is the existence of the Food Industry Center at Ohio State which sparked my interest in this area of new product research. The center was recently established as one of the few centers nationally devoted to postharvest research as it is called or end use research as I preferred to call it earlier.

Federal funds for Ohio State University would have to be matched on a one on one ratio for the small amount of the total. The nonfood marketing center would complement the development of new products by analyzing market identification and development strategies as well as conducting market impact studies.

An outline of the "Agricultural Commodity Uses Research Act of 1985" which I am proposing is presented in an attached document.[1]

Mr. Chairman, let me just reemphasize that my proposal is not intended to bring short-term help to farmers, as much as we need that right now. But I think while we are taking into account those short-term concerns, we absolutely must look at the long-run strategy to balance supply and demand and return profit to agriculture and create the base for a third golden age of agriculture.

I believe we can do that. We have seen what tremendous impact our research has had in production. I think we can have the same kind of impact over the long haul in creation of end uses of these products. I think such forward looking strategies are the key to renewing America's agricultural prosperity and restoring our farmers' confidence in the future.

I do not want to see us just drift to the future, Mr. Chairman. I think we need a purpose, I think we need a plan. We have emphasized production in the past. Now we need to emphasize new ways to use those products. So I look forward to that future and working with you, Mr. Chairman, to shape it. I want to start to do that right now.

I thank you very much for the opportunity to testify.

Senator WILSON. Thank you very much, Senator Glenn, for your very thoughtful statement. We are grateful to you for taking time this morning to appear before the committee. We value the information and the opinions that you have brought to us.

We understand that you do have other obligations so we will collectively excuse you.

Senator GLENN. Thank you Mr. Chairman. If you or the committee members have any questions on this after you have a chance to peruse it, I would be very glad to make any additional statements or answer questions for the record if it is to be kept open.

Senator WILSON. Thank you, sir.

Senator GLENN. Thank you very much.

Senator WILSON. We have been joined now by the Honorable Hal Daub, Representative from the Second Congressional District in the State of Nebraska. As with the other members, he has other obligations. So we will put him on now and entertain his testimony. We do have a copy of the written statement.

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[1] See p. 880 for a reprint of the outline paper submitted by Senator Glenn.

Congressman Daub, we are delighted to have you here. Welcome, sir.

STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE SECOND DISTRICT OF NEBRASKA

Mr. DAUB. Mr. Chairman, I am particularly glad to testify before you and members of the committee. It is a pleasure to appear and to have a chance to express my views to you and to this committee on what we may do in Congress with respect to 1985 farm legislation.

Let me start my testimony by telling you that although I may be from Nebraska, I am not from New York. Some of my farmers consider that if you are from Omaha, you are from the East. But by virtue of a little bit of a credential, I spent 10 years of my life in agriculture before having the privilege of Second District constituency sending me to the Congress.

I do know what happens to vitamin B in the rumen stomach of a cow. You may not. But it is important to my State. And indeed with 60 percent of our receipts in livestock and agriculture and 30 percent of grain, we are most concerned about what we do and what the future is for our family farms.

So with that in mind, I will proceed. And I shall be brief.

This committee will be drafting a farm bill next month. I have often said that the decisions we face in the next few weeks involve the most crucial agricultural issues since the Great Depression. As important as these questions are, however, I think they pale in comparison to the question of whether we are going to reduce Government spending and with it lower interest rates.

With every 1-percent drop in interest rates, over $2 billion is left in the pockets of our farmers in this country. I am watching with great interest the actions of the Senate on this question. Farmers, such as any other group I think in the country, should now be closely watching the Senate.

If the Congress succeeds in adopting a budget resolution, actually cutting Government outlays in the neighborhood of $50 billion, not by raising taxes but by actually cutting Government expenditures, I believe that money markets will respond with lower interest rates, improving the lot of rural America, increasing taxes, will block the needed interest rate decline, keeping the farmers biggest expense, interest payments, at suffocating levels.

On the other hand, if the Senate responds by insisting that there is no way Government spending can be cut, then rural America may end up suffering the most. The $64 farm question is whether Congress is going to continue milking the farmer through high interest bills because it doesn't have the spine to reduce spending.

I focus on the Senate because if it cannot achieve meaningful cuts this year, then there is probably not much hope that my body will, the House. However, these matters are also outside of the purview of the farm bill.

Despite the overriding importance of cutting Government spending, there are critical questions facing us in farm legislation. The central questions seem to me to be whether the farmer is going to get more Government regulation in his industry or less. Whether he is going to see a competitive aggressive export policy or one that tolerates predatory practices of other export nations. Whether he will operate in a boyant, growing agricultural environment or continue on the current path of a sluggish halting farm economy.

I recently polled producers in my district for their thoughts on the question of more or less Government agriculture. The proposal of more Government was overwhelmingly rejected. I mailed to three counties, all heavily agricultural, I would estimate 18,000 farm questionnaires. I got back over 10 percent. I got back better than 1,800 comprehensive individual survey responses to the questions that I just asked, should there be more than less Government in agriculture?

Seventy-six percent of my production agriculture family farm survey respondents agreed with that proposition, 76 percent of them said, there should be less. Moreover, additional supply controls were decisively rejected. On reduction of farm problems, 83 percent of my farmers opposed mandatory production controls.

[The questionnaire conducted by Representative Daub and results thereof follow:]

1. In the long run, do you agree or disagree with the statement that we should get the government out of farming?
Agree 76%.
Disagree 24%.
2. Do you favor mandatory federal control of the production of agricultural commodities by government?
Yes 17%.
No 83%.
3. In the United States today, 12% of the farmers (comprised mostly of the larger farms nationwide) receive 72% of the federal agricultural programs' benefits. Do you favor targeting farm program benefits for only low or middle-income farmers?
Yes 75%.
No 25%.
4. Do you favor reduction of loan rates to market-clearing levels in order to increase commodity exports?
Yes 62%.
No 38%.
5. Would you favor the establishment of a Conservation Reserve which would pay farmers to retire fragile, erodible land?
Yes 43%.
No 57%.
6. Were you able to secure a loan this year for your Spring operating needs?
Yes 23%.
No 14%.
Didn't Need 63%.
7. Do you agree or disagree with the Reagan administration plan to move gradually toward a more market-oriented farm policy?
Agree 78%.
Disagree 22%.
8. Education:
Increase 17%.
Decrease 33%.
Remain Same 50%.
9. National Defense:
Increase 14%.
Decrease 37%.
Remain Same 49%.
10. Veterans' Benefits:
Increase 14%.
Decrease 23%.

Remain Same 63%.
11. Environmental Programs:
Increase 18%.
Decrease 33%.
Remain Same 49%
12. Terminate the Small Business Administration:
Agree 50%.
Disagree 50%.
13. Terminate federal subsidy to the National Railroad Passenger Corporation (AMTRAK)?
Agree 75%.
Disagree 25%.
14. Many people have said that the best and fairest way to reduce the deficit is an across-the-board freeze in federal spending, including defense spending and cost-of-living adjustments (COLAs) for Social Security, military, civil service, and railroad retirement. Do you agree or disagree with this proposal?
Agree 72%.
Disagree 28%.

Mr. DAUB. Last week I introduced in the House H.R. 2112, the Agricultural Trade Food and Fiber Act of 1985. This bill, in particular the provisions for exports, commodity loan rates, target prices and other items similar to S. 616 introduced by Senator Helms. However, my bill has some important differences.

These differences include the approach in my bill to soil conservation, agricultural taxes, tobacco programs and other things. The thrust of the bill is to first, put teeth and dollars in our export policies to retake markets lost to unfair trading practices by our competitors. Second, to initiate flexible price supports to regain lost world markets and reduce price crushing surpluses while maintaining a safety net for farmers under financial stress. And third, to change the tax laws to reduce the tax benefits of sheltering nonfarm income with farm losses.

America enjoys a huge comparative production advantage over the rest of the world. Yet this advantage is being stripped away unfairly. Our products too often move only after other countries' stocks are sold. American farmers can compete within at the export game, but it must be a fair fight. He cannot face exports and foreign subsidies and trade barriers alone.

There has been enough talk about unfair trade I think, so I do believe it is time to start carrying a bigger stick.

The export portion of my proposal, like 616, includes a battery of weapons to fight unfair trade. It contains approximately $1 billion annually in direct credit financing or credit guarantees for the years 1986 through 1991 export and a payment-in-kind program to enhance foreign sales of American and foreign products.

This export program will increase farm prices in two ways. First, by giving a bonus from Government-owned commodities, foreign purchasers will have a greater incentive to, if you will, buy American. In the process, Government stocks will be liquidated, removing their price depressing effect.

Now, as harmful as other nations' unfair trading practices are, we must recognize that we have shot ourselves in the foot on exports with rigid Government commodity programs. Our inflexible price supports have set a price floor on American commodities which enable foreign competitors to undersell us with the aid of their subsidies. This has actually increased competition.

It has also led to the acceleration of price-depressing surpluses here at home. If we do not move to flexible price supports, American agriculture is headed to what I want to suggest will be sort of a permanent payment-in-kind program. You remember that PIK Program.

Under these circumstances I project the American farmer will see continued deterioration of his markets abroad together with mounting surpluses at home. Frustration of consumers and taxpayers will grow. And in an attempt to cut program costs and dispose of these price crushing surpluses, the Government would again return surplus commodities to producers and decrease production. PIK and its disastrous shock waves for rural America would be relived.

This scenario, as we have seen, means for most farms the loss of equipment dealers, the loss of rural banks, the losses of seed, fertilizer dealers, and the loss of much of what makes up rural society.

In my farm survey 62 percent of those farmers polled favored reductions of loan rates to market clearing levels of increased exports. To restore flexibility in price supports my farm bill sets the loan rate at again 75 and 85 percent of the 5-year moving average after the low and the high years are discarded.

However, unlike the administration bill, my proposal would preserve the target price well above market rates, insuring that adequate income support payments are retained. As critical as it is to move American products in overseas markets with flexible price supports, we cannot end 50 years of Government agricultural regulation overnight. Change to more flexible policies must be cushioned by measures to provide for smooth and orderly transition. An adequate safety net, if you will, must be maintained.

My proposal also reduces the tax benefits of sheltering nonfarm income with farm losses. Under current law, bona fide farmers and ranchers compete with operations that are more interested, as we now have heard, conveniently described as farming the tax laws rather than farming the land. These practices makes small to medium family farmers much less competitive and add to already burdensome price depressing surpluses.

One provision in this bill reducing the incentive for tax sheltering is the repeal of the rapid depreciation methods for single purpose agricultural structure. The current depreciation allowance has been used extensively in the pork industry. It has created disadvantages for the small and medium pork producer in two ways.

First, larger operations receive larger tax benefits. This provides a supplemental capital for reinvestment, placing smaller operators at a competitive disadvantage. Second, current law stimulates additional production, thereby lowering price. These lower prices hit the small and medium producer the hardest. Elimination of this provision should go a long way toward leveling the competitive playing field among different sizes of operators and eliminating this indirect incentive for overproduction.

Let me just interrupt my normal testimony to simply say that a steel hull can find a building that depreciates in 7 years and could, Mr. Chairman, more realistically be depreciated in 17.

The conservation title includes legislation that I have previously introduced, mandating long-term soil conservation contracts with the producer, cultivating what we now describe as highly erodible soil, to be classified as what would be 4-E through 8. It also offers a cash payment or a payment in kind, if you will, for removing erosive crop land from production in applying these conservation programs.

The bill also makes producers using highly erodible land ineligible for Government programs as to that commodity. Finally, producers must use sound conservation practices determined by the local soil and water conservation district in order to participate in commodity programs.

Mr. Chairman, the plight of the farm economy with the stress and dislocation that it has brought to rural America and the ominous consequences of the depressed agriculture, I think we all understand that hold out the same kind of prospect for the rest of our Nation's economy. And so I think with that in mind, it makes the enactment of a new farm bill or farm legislation imperative.

A mere extension of existing law of course would not be sufficient. The 1985 farm bill must aggressively promote exports, move away, in other words become more market sensitive with respect to Government interference in our marketplace and preserve a safety net for farms that currently are under financial stress, that indeed we would like to see engaged in agriculture in 1995.

With that I certainly appreciate your allowing me this opportunity to testify here during the committee's work on the agriculture bill for 1985. And indeed I want to thank the members of the committee for their interest and attention.

I'd answer any questions if you have them.

Senator WILSON. Thank you very much, Congressman Daub. Your testimony has added greatly to the record.

It might interest you to know that the views you expressed with respect to trade indicate to me that the Second Congressional District of Nebraska is not unlike the agricultural sectors of the State of California. I have recently conducted a field hearing on the trade title to the 1985 farm bill. The opinions that you have expressed this morning were echoed in repeated statements of those attending that field hearing.

I also would say that while you have dealt specifically and extensively with the provision in farm bills, the observation regarding the Fedeal deficit that you made at the outset with respect to what you hope the Senate will do, I think, is perhaps the most relevant of all. And I think that you are absolutely correct. And I only hope that we will vindicate your confidence.

I have to agree, I think that if the Senate succeeds in reducing the deficit, they will offer agriculture the best farm program the Government can. And if we do that, I think we will find that the people in New York, Nebraska, and California, and virtually all farm States across the land, will agree with that. And if we are successful in the Senate, I think that it is very likely the House, however reluctantly, will follow. But if we have a few more people like you, our chances for success would increase.

Mr. DAUB. Thank you, sir.

I would offer only one thought should there not be any questions in your busy schedule. And that is I direct your attention to some of the language drafted in my bill relative to changes. I really want you and your staffs, if you would be so kind, to take a look at what might be called my sod-buster provision in that it makes an attempt to solve the thorny issue of land ownership.

And once there is control over one land relative to the objective that we have in mind in not making Government loans to people who may choose to plant erodible soil. My view is if you want to buy a Toyota, that is OK. But the Government should not use tax money buying a Toyota. So why should we be loaning tax money to people who would be producing on land for that purpose.

The other part of it is in my soil and water conservation section I suggest that we need to reorganize part of the way we do this inside the Department of Agriculture. So what I am saying is that we need to urge ASCS extension and SCS to get one Under Secretary talking about minimum till versus no till instead of going up the ladder, across the ladder, and down the ladder to find out what is right for what part of the country.

We have a scarcity of good public servants plus the money available to do the tilling. I also add to it an opportunity for special designation so that the person who is upstream that used to not want to participate in a grassy waterway construction effort, for example, will be more encouraged to do so because of my bonus program. Whereas now, of course, the lower waterway person wants to do it, but 4 years later after we put Government money in it the upstream did not participate, so we wash out everything and start over. So we are wasting money.

And in my tax section where if the off farm profit from a New York widget manufacturer once upon a time was attracted into long-term capital investment into tobacco at stable rates is now, because we have money markets and NOW drafts and share accounts and passbooks and mutual funds and nonbank banks and nonsavings and loans savings and loans and interest rates deregulation, a whole new world, I think it becomes incumbent upon us to recognize that to bring just profits in to be investigated temporarily for a loss to off down that farm return for a no net tax due return is no longer the right kind of incentive.

And, in fact, we can do a lot of things in the farm bill to help our farmers. But if we do not address this issue, I think we will not have accomplished as much as we could.

It would be with those things in mind that again I want to thank you very much for this opportunity to testify.

Senator WILSON. Thank you, Congressman.

Mr. DAUB. May I make my survey results and the summary of the bill part of the record?

Senator WILSON. We would be pleased to have them.

It is a radical proposal that you are suggesting, that the members of Government communicate with one another. But we will consider it.

Senator ANDREWS. What limit does he put on you?

Senator WILSON. It appears we have a question.

Mr. DAUB. From my labor to the use.

Senator WILSON. Senator Andrews has joined the hearing.

Senator Andrews. I was here through all of the testimony of Representative Daub.

Senator WILSON. You are recognized for that purpose.

Senator **Andrews**. You mention the fact that we were going to keep target prices and let loan rates drop to what would be regarded as market clearing levels. How are you going to determine how much wheat qualifies for target price, the bushels that will be consumed domestically or what?

Mr. **Daub**. My desire is to have a target price at 110 to 125 percent of the loan rate. You heard me say in my testimony that the loan rate would be set on 5-year average, high and low out, to be more flexible, between 75 and 85 percent.

To do so, of course, you must consider what is the cost and what is the tradeoff? And, of course, I propose that the actual limitation on payment be retained but at a lower amount. So that indeed if you do these two things over a 6-year period instead of, for example, as the administration proposes, over 4, I think we achieve a little more of a common goal.

I do believe that that provides the safety net without starting to restrict acres, go to base acres program, or to certificates much like the Canadian program. They used to tell you what you can and cannot market of your total products.

Senator **Andrews**. Has your research shown that you can provide a safety net by lowering the target prices next year by 30 percent?

Mr. **Daub**. Yes, sir.

Senator **Andrews**. So instead of the target price $4 on wheat, you are anticipating a target price of about $3 on wheat.

Mr. **Daub**. I am not sure what it would be.

Senator **Andrews**. If you put it 10 to 15 percent above loan, the loan has been about at the market price, your new loan is 75 to 85 percent. You are getting down there where it is about a buck above loans. So you are setting your target price down about a dollar, which is 60 percent of the cost of production.

Mr. **Daub**. It may well work out that way. But my thought is in a comprehensive bill that also encourages exports by the techniques I am talking about which most directly affect demand for wheat and/or—I do not call it the carryover, sir, I call it the hangover—that causes the lower price at harvest. That I think that if we make such a long-term policy commitment, we will not see the reductions that you are speaking of. And I am sensitive to your concern.

Senator **Andrews**. We have got a number of different proposals to look at Almost all of them want to get export grain price marketing clearing levels. Most of them want to maintain a safety net provision to the American farmers by keeping the target price at or close to where it is now. Because it is well below the cost of production.

That is where your bill differentiates. Your bill includes a sharp drop in target prices compared to most of the others. That is why I wanted to find out the figures you are recommending, so when we consider them——

Mr. **Daub**. I sure understand. May I add that the current law is about $4.38?

Senator **Andrews**. Yes, $4.38.

Mr. DAUB. And the administration proposal projects would be in about $3.41. And it would appear that what Senator Helms and I are looking at would be in the range of $3.72.

I want to indicate you are in the right direction, but maybe not as much as you might think.

May I add one other thing, because I think the gentleman has a concern—and I do too—expressed in his question.

In 1981 we set a target price in a farm bill. For example, in my part of the country, corn, which is $3.03, set 4 years ago. Without regard to how many acres are going to be put to what and what the weather looks like, that that rigidity, maybe we will not want to disagree too much on what the targeted loan rate principles ought to be yet beyond the fact we need to retain them for safety net value.

But to have them so rigidly set as they had been in the past I think is where we might find some common ground.

Let me give you this example. Go back to 1971 when—I think that is the last year when my farmers in Nebraska ever made a real profit. That is how I feel. And then I watch us move. But we watch the currencies disengage relative to values behind them, we go on a farm program of setting the target, loan rate, and diversion programs of one kind or another. Starting out in 1971, we move through about 16 years of this now, 4 of them in a row.

And what we start to see is that our land-grant colleges on the one hand went out into the world and taught other countries how to put millions and millions of virgin acres of land into production. We taught them the first opportunity for them was to acquire their own internal countries food security.

Then they began to understand the nature of currency exchange for profits alone, came into the world marketplace. Thirty of them now competing with us.

Then we saw those markets begin to deteriorate with their maturation. About 1957 we saw in North Dakota, South Dakota, Iowa, across the Grain Belt, Meat Belt, which is sort of land specific. We saw red meat consumption drop from about 106 pounds per capita in 1970 to somewhere around 75 pounds per person in 1980.

What happened was, of course, we lost about 20 percent of our grain markets that way as well. We are not going to put it through to meat, that is a market totally unretrievable.

And so the function of the target price in my judgment assured that the banker got paid but nobody else, especially our friends in production agriculture. This is something that we need to make more flexible, more market sensitive. And I think it will help our wheat growers out.

Senator ANDREWS. The problem is in the real world the banker does not get paid.

Senator WILSON. Gentlemen, the real world is also that it is almost 10:30.

Mr. DAUB. Thank you. I appreciate it sincerely.

Senator WILSON. Thank you very much, Congressman Daub.

In the interest of time and in the interest of fairness, for all of the witnesses who have come to testify this morning, what we are going to ask is that those who have submitted written testimony, which will be made a part of the record, summarize their testimony. And we will ask that no more than 5 minutes be taken by those summaries.

We do hope to get some questions in. In order to do that we will have to conform to that procedure.

I note that Daniel Huber has joined us now. We welcome him here. He is the president of the commodity marketing division of Cargill, Inc., and accompanied by Carroll Brunthaver, vice president of Sparks Commodities.

We would be happy to entertain your presentation at this time.

STATEMENT OF DANIEL R. HUBER, PRESIDENT, COMMODITY MARKETING DIVISION, CARGILL, INC., ACCOMPANIED BY CARROLL G. BRUNTHAVER, VICE PRESIDENT, SPARKS COMMODITIES, INC., REPRESENTING THE NATIONAL GRAIN & FEED ASSOCIATION

Mr. **Brunthaver**. Thank you, Mr. Chairman. We have submitted a statement.[1]

My name is Carroll Brunthaver. I am vice president of Sparks Commodities, Inc. With me today is Dan Huber, president of the commodity marketing division of Cargill. We are presenting testimony jointly on behalf of the National Grain & Feed Association, a voluntary association of grain and feed firms with 1,250 individual company members including country elevators, terminal elevators, processors, and exporters.

At this point Mr. Huber will outline some of the aspects of the farm problem as we see it today.

Mr. **Huber**. Thank you. Are the slides up?

Thank you, Mr. Chairman for the opportunity. My assignment is to describe the marketing challenge facing U.S. agriculture and the need for some fundamental policy changes. I will try to do this with a series of nine slides that will illustrate the situation quickly and graphically. Mr. Chairman, we submit the hard copies of these slides for the record.

The problem, U.S. agriculture today in part of a world food economy. A prolonged recession and a tightening of credit conditions has reduced the rate of growth and world purchasing power. As a result, total world grain trade growth has slowed substantially after the rapid expansion of the 1970's.

U.S. response has been a conditional one, that of a curb in production to supply management programs such as PIK. Supply management has not worked, however, because our major competitors have simply expanded their production in exports. So today the United States finds itself uncompetitive in markets it once dominated.

I hope you can read this chart because it outlines a snapshot of U.S. grain prices relative to our foreign competition on an f.o.b. seaboard basis as of January 11, 1985. From this comparison it is clear that U.S. grain and soybeans are even competitive in world markets today and that current U.S. price support levels prevent U.S. trade from being competitive.

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[1] See p.888 for the joint prepared statement of Messrs. Huber and Brunthaver.

That is the widest spread, I think, that any of us in the day-to-day activity have really ever witnessed, especially in the case of wheat.

Current U.S. agricultural policy is undermining American agriculture long term. During the 1970's, U.S. grain exports rose, as you can see on this next chart, from 1.8 billion bushels in 1970 to a record high 5.1 in 1980. Since then they have fallen steadily, reaching just 4.2 billion bushels this year.

We project that the decline will continue next year. And look at that number, 3.9 million compared to that record for 5 years ago at 5.1. This will be the lowest level for U.S. exports since 1976.

This decline occurred in spite of an increase in overall world grain trade of 41 percent during the same period. In other words, Mr. Chairman, we are giving up market share to our competitors.

Let's take a look at wheat, for in that arena it is clearly displayed. World wheat acreage has grown at a steady pace since 1972. U.S. wheat acreage grew at the same rate or higher during the 1970's as outlined in the next chart. Starting in 1980, however, supply management programs have reduced U.S. wheat acreage while the rest of the world has continued to expand.

And that trend continued as outlined on the chart which is projected into 1985. Yet even with the large acreage reduction programs, U.S. surpluses build while other exporters sell U.S. wheat, carryover stocks. In 1984–85, the current year that will wind up on May 31, will represent 61 percent of total use.

Now, look at what happens to that out there for next year. In 1985–86, the way we view the world wheat picture today, we see U.S. wheat carryover going to 92 percent of total use. That is an all-time high.

In that area, most of that carryover will be under Government control, probably in the neighborhood of a billion four or a billion three bushels. And you all know what that means to the cost.

Now, let's turn back to the world arena for a moment. There are two significant things there. One, the European Community has had a major impact on world grain imports; 8 years ago grain imports exceeded exports by 20 million tons. Today the Common Market exports are 20 million tons above its imports, a 40-million-ton swing in net trade in less than a decade.

U.S. price support and supply control policies have encouraged rather than discouraged this development.

Shifting to the other primary element in world trade turns our attention to the Soviet Union, which has become the single most important factor in world trade. Its grain imports have grown from virtually zero in 1970 to 25 percent of world trade in 1984.

Its production in imports varies significantly from year to year, as you can see on the chart. But over time a policy that encourages the Soviet Union to rely on grain imports to meet its rising meat demand would have a positive impact on world agriculture, and especially here in the United States.

So the problem is that our agricultural policy is blocking U.S. competitiveness and encouraging our competitors to go on profiting at our expense. Change is needed. And it cannot be changed or asserted at domestic market.

Look at the chart which displays the domestic consumption of corn. That market is growing at less than half the rate of U.S. productive capacity. Even with the recent exchange of industrial uses of corn for sweeteners and alcohol, domestic foreign use is not significantly higher than it was 15 years ago.

A more profitable agricultural economy depends on rekindling export demand and restoring our competitiveness. It can be done and at less cost than most of our people have felt possible.

As my final slide shows persuing current policies, both budget and farm policies, will lead to continued stagnation of U.S. grain exports. And we project that without a change, those exports will be 4.4 billion bushels in 1990 versus the last 3 or 4 years at 4.2 to 4.4.

So there is not much help out there. A shift to a market oriented farm policy and more balanced macroeconomic policy will have a major impact on export demand. A switch to market oriented policy and a relatively modest 16 percent decline in the value of the dollar would push exports, as you can see on the chart, in our analysis to approximately 5.5 billion bushels by 1990.

Now that is a billion and one-half increase over the 3.9 that we see for the coming year. With annual exports 25 percent higher than under a continuation of our current policies, we believe farm prices and farm income also will be stronger.

Now, I would like to turn the balance of our presentation to Mr. Brunthaver, who will outline the key steps that the National Grain & Feed Association feels are essential to a sound agricultural program.

Senator WILSON. Gentlemen, we would urge you reluctantly to expedite the presentation. You have already exceeded the 5 minutes.

Mr. BRUNTHAVER. Let me summarize briefly what we feel should be done.

We feel loan rates must be related to the market. Based on current price levels, loans set the 70 percent of the average to the preceding 3 years would go a long way. Acreage reduction programs should be eliminated. These programs are making us as uncompetitive as are the high loan rates.

The grain reserve program in the past has been used to limit grain supplies available to the market and making us uncompetitive overseas.

The U.S. producers need domestic income support. Our recommendation is that income support payments be made directly to farmers on a purchase bushel acreage on '85 base acreage with no stipulation for planting the crops and receiving the payments.

This in effect represents our recommendations to try to get competitive, by getting the loans down, doing away with the diversion program, limiting the reserve, making payments over a 3- to 5-year period to help farmers make the transition to a more competitive American agriculture. Thank you, Senator.

Senator WILSON. Gentlemen, thank you.

I want to ask some questions, but frankly I agree so completely with the presentations that I am not going to take the time to do that.

I do wish to note the presence of our distinguished colleague from Alabama, Senator Heflin.

Senator, if you wish, you can ask questions.

Senator **Heflin**. I have no opening statement, and I will refrain from asking questions at this time because of the great number of witnesses that are here and trying to hear from them.

Senator **Wilson**. All right, sir. Any time you wish to, we would be happy to recognize you for that purpose.

I have, rather than a question, an invitation to Mr. Gerace, who sat here patiently after giving his testimony. On page 5 of your testimony you made the statement:

> Our farmers need better means of addressing the problems of subsidized agricultural imports. The present antidumping petition process of the International Trade Commission is too costly and time consuming for most farmers, particularly for many producers of the so-called minor commodities.

Let me just invite you, Mr. Gerace, in writing to expand upon that, elaborating not only on the problems that it has produced for the minor commodities that you have mentioned, but any specific suggestions you wish to offer with respect to reform of the antidumping petition process.

Mr. **Gerace**. Very good. I am pleased to do that. I appreciate your interest in it. Thank you very much.[1]

Senator **Wilson**. Thank you, sir.

Mr. Brunthaver, Mr. Huber, we thank you. You have presented the committee with very valuable information. And again, your observation with respect to the strength of the dollar and what it means in terms of exports I think is vindicated not only by your own market research, it is echoed, I will tell you, in the opinions of people growing different commodities than grain. So we thank you.

And with that, we will excuse you and entertain the presentation of our next panel of witnesses. The Chair now calls Dr. Charles R. Botticelli, department manager of biological sciences of GTE, and with him Wesley F. Hayden, legislative counsel to the International Fish and Wildlife Agencies.

Good morning. Dr. Botticelli, we will hear first from you.

STATEMENT OF DR. CHARLES R. BOTTICELLI, DEPARTMENT MANAGER, BIOLOGICAL SCIENCES, GTE LABORATORIES, WALTHAM, MA

Mr. **Botticelli**. Yes, thank you, Mr. Chairman. I am submitting the formal testimony as you have requested and will make a few additional remarks to supplement the formal testimony.[2] I am department manager of GTE Laboratories in Waltham, MA.

GTE is primarily known for their aggressive research in the area of telecommunications and other special areas. I come to you as a basic scientist in biology. GTE has funded research over the past 10 years in the biological areas without profit, without any profit in the future outcome of our efforts.

So it is basic research that is being sponsored.

I found with the limited funds I have to do basic research that I am unable to expand these important research efforts because they are not part of the long-range objectives. So only basic models can be developed, I feel so strongly that these models have important implications and impact on future technologies that I come with this appeal to the committee.

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[1] As of press release no response was received from Mr. Gerace.

[2] See p. 895 for the prepared statement of Dr. Botticelli.

I am here to testify in support of Senator Helms' farm bill, sections 1406 and 1473-B, which permits the Secretary of Agriculture the discretionary opportunity and flexibility to engage in discussion and to, if warranted, support research out of the private sector.

The current law and how the new section, 1473-B, can help agriculture. My area is photobiology—that is where we study the effect of light on living things—both plants and animals.

We have done substantial work in the laboratory and over the past 8 years in the field—California, Florida, Washington State, Oregon, Tennessee, and Florida—working with farmers for the most part, bringing our research to farms, small, moderate sized, and large. We are finding a great deal of acceptance by the farmer to participate in our research and to assist us in whatever way possible.

I might use one organism to give you an idea of what has happened in my past experience. With our funds we chose to set up a field research site in California. Without naming the organization, we looked for a gesture of cooperation from the industry.

In this particular case it happened to be the almond industry in California with regard to a major problem, a pest problem they have with the navel orange worm, which the name does not imply the fact that it is a major pest for almonds in the State of California. Again, it was basically to see what kind of cooperation we would receive.

We asked for $8,000 in funding. After going through formal funding requests, we were turned down with a letter indicating that they were very much interested in hearing about our results. They would like to review them the year following.

We set up this experiment in Bakersfield, Calif., where we set up 10 acres under very specialized lighting at a cost of $90 per acre. And compared our results to 10 acres under chemical control. The chemical control cost approximately $200 an acre a season with all the implications of introducing chemicals to the environment and with subsequent harm to other predators in the field.

Our lighting, as I made mention, was $90 an acre, and bio control approximately $130, with the possibility of having to repeat that because the biological organisims could not live through the seasons.

The results showed the unchecked controls were about 21 percent damage level. The chemical controls were at about 15.8 percent damage level. The biocontrol is at about 14.7 percent level. And the lighting controls, which are very specifically adapted to modifying behavior of the moth of this organism in the field, was at 2.8 percent damage level.

This as an example that we are working in a cost effective way of reducing the damage in the field and eliminating chemicals. Yet it was not a project that was considered worthy of industry support—Government funds.

We wanted to set up and work in Louisiana, met with people from Louisiana State, and our funds were not sufficient to do work that they deemed important for their efforts. We are currently in Washington State working on the apple maggot and understanding its behavior and how it might be controlled in reducing the introduction of pesticides. This has been applauded by apple growers in Washington State and commended to Senator Evans' office.

In short then, the funding has not been available in the past on a matching basis for, I believe, very worthwhile research. And this new bill, the new section, would permit the Secretary the opportunity, and as it was stated, the discretionary opportunity to permit research out of the private sector with matching funds.

I applaud the new bill. I believe there are hidden advantages to such a bill. We have worked with farmers where their participation has facilitated technology transfer, has facilitated the development of technology, has facilitated an interactive cooperative environment in research. And in those States where the extension people wanted to take part, they could not because the funding was not available for them to participate in our project.

And one last point is we are working now with Heliothis in cotton. We have set up in Tifton, Georgia. And again, to reiterate, the continued effort on the part of our research in investigating problems relating to insect damage.

Thank you.

Senator WILSON. Thank you very much, Dr. Botticelli.

Mr. Hayden.

STATEMENT OF WESLEY F. HAYDEN, LEGISLATIVE COUNSEL, INTERNATIONAL ASSOCIATION OF FISH & WILDLIFE AGENCIES

Mr. HAYDEN. Good morning, Mr. Chairman. It is a pleasure to appear here today on behalf of the International Association of Fish & Wildlife Agencies to present our views on issues which we feel should be included in the 1985 farm bill.

As you are undoubtedly aware, our organization is made up of the fish and game agencies of each of the 50 States as well as five Federal agencies. But before I go into the summary of my statement, I would note the Society for Range Management has also asked to be associated with it and the position which it reflects.[1]

Because our governmental members are charged with the responsibility for managing fish and wildlife, they are directly interested in anything that affects the habitat of those species, obviously one of the products of agricultural legislation and its cumulative impact upon land uses. That explains to a considerable degree our interest in this issue.

I would emphasize, however, that the association also recognizes the need for food, fiber, and energy. We believe that these products must be produced in a manner that protects the Nation's major natural resources, its soils and its waters as well as its wildlife resources.

We also recognize that farmers must be assured a fair return on their investments and that wildlife production harvest must be harmonious with other land uses and needs of society. Realistically, a natural partnership exists between the conservationist and the producer. It should also become a political partnership. And we hope that will take place under the 1985 farm bill.

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[1] See p. 898 for the prepared statement of Mr. Hayden.

We believe that sound soil and water management is good for wildlife, it is good for farming, it is good economics. Polls have repeatedly shown that the American public wants political and financial support for conservation programs. To achieve that objective, special attention, in our view, must be focused on areas having severe chronic problems of excessive soil erosion, nonpoint source water pollution, wetlands losses, and other related problems.

The solution to them requires a strong Federal commitment to policy, budget and guidelines which promote sound soil and water management. The mechanism for regional, State, and local cooperation is already in place. Their needs, however, would be improved by coordination and mandatory consultation with State agencies. Inconsistent Federal funding and incentive, and cross-purpose programs have all contributed in the past to a lack of progress and the mistrust of what should be the most respected alliance of natural resource manager.

In our view, the following things need to be included in the 1985 farm bill. I will summarize them briefly.

First, we would incorporate language to ensure that conservation features are integrated in all commodities programs. The overriding criteria should be to hold soil losses below replacement rates.

Second, we would eliminate Federal Farm Program benefits for those who would convert any existing noncropland into production, including highly erodible lands, range lands, terraces, wind breaks, and wetlands.

Third, we would establish a long-term conservation reserve with a goal for removing 30 million acres of erosion-prone land from cropland production.

Finally, States should be encouraged to develop guidelines that would be more strict, for the so-called "sod buster" lands, and for a conservation reserve to respond to State concerns. Federal farm programs and their benefits should be tied to farms meeting those criteria.

I think these suggestions will be pertinent and helpful in the development of the 1985 farm bill. We offer the assistance of our organization in the fashioning of such legislation and look forward to working with this committee toward that objective.

Thank you, sir.

Senator WILSON. Thank you very much, Mr. Hayden. We are grateful for the suggestions that you have made.

Dr. Botticelli, your testimony is particularly encouraging and your research can have a significant impact on the production and efficiency. It would seem that the kind of technology that you are pioneering can very well solve some of the environmental problems that we have encountered with older techniques.

I certainly hope that proves to be the case. We are grateful to both of you for being here this morning. Thank you very much.

The Chair is pleased to announce we have been joined by another distinguished member of the committee, the Honorable John Melcher, Senator from Montana.

Our next panel will consist of Thomas J. Trantham, who is here from Pelzer, SC. He is accompanied by Timothy Pigford, Riegelwood, NC, and Charles Freeman, Orrum, NC. They are representing the United Farmers Organization.

I would invite to the table at the same time George B. Watts, president of the National Broiler Council, and John D. Craig, attorney, representing Craig & Craig Law Corp., who is accompanied this morning by John Butler, Jack Butler, and J.C. Butler of Butler Farms in Brazil, IN.

Gentlemen, what we will do is afford to Mr. Trantham 5 minutes, Mr. Watts has 5 minutes, and Mr. Craig 5 minutes.

The bells you hear in the background indicate that 5 minutes have expired. Please do not be seduced by the old phrase that you are a real dinger. We do not want the bell to ding. But unfortunately we are compelled to use it because we do have, as you can see from our list of witnesses, a number of people yet to testify.

So we will begin by calling upon Mr. Trantham. Mr. Trantham, you are free to use your 5 minutes as you wish. If you want to divide that in a way that permits Mr. Pigford and Mr. Freeman to participate, that is fine. But we are compelled to allow the United Farmers a total of 5 minutes.

STATEMENTS OF THOMAS J. TRANTHAM, FARMER, PELZER, SC, ACCOMPANIED BY TIMOTHY PIGFORD, FARMER, RIEGELWOOD, NC; AND CHARLES O. FREEMAN, FARMER, ORRUM, NC, REPRESENTING THE UNITED FARMERS ORGANIZATION

Mr. TRANTHAM. Thank you, Mr. Chairman.

My name is Tom Trantham. I am a dairy farmer in Greenville, SC. I am president of the upstate chapter of the United Farmers Organization.

We represent farmers both young and old and not just farmers in financial trouble. We have third and fourth generation farmers who are losing money and their farms.

On behalf of myself and our members, I wish to thank you for the opportunity to have input concerning the vital subject of the 1985 farm bill and the plight of the family farm.

I would like to bring to your attention the fact that according to the Farmers Home Administration, South Carolina had over 50 percent of their farms deleted during 1984, and 39 farmers are being lost per week. We are in this situation due to droughts, freezes, high interest rates, high cost of production, and low prices to the farmer. This was not created in 1 year and will not be resolved in 1 year.

But in today's world we feel that our product is very profitable to everyone involved except the farmer. The president of the co-op where I sell my milk receives a $200,000 a year salary with $100,000 a year bonus. According to Business Week, the top executive for Dart and Kraft receives a total compensation for 1 year of $1 million. That ain't bad for peddling cheese.

The prices of our products have gone down but the price to the consumer has gone up. I am receiving $1.21 per gallon for milk; 2 years ago I was receiving $1.30 per gallon for my milk on my farm. The retail price for 1 gallon of milk 2 years ago was $1.89. Today 1 gallon costs consumers $2.49.

A close look at food prices revealed that farmers as well as consumers are having a difficult time making ends meet. The only group that shows a constant gain in the food economy are the processors and retailers. We feel it is because they have control of the middle sector between the farmer and the consumer.

I would like to state that the free market concept is a myth and will not work because of the fact that our foreign competitors who export their crops to the United States are heavily subsidized. These imports are in direct competition with us. This hurts their local farmers and the American farmer as well.

Not only do these conglomerate agricultural imports hurt the family farmers, but directly lower the tax base of 20 percent of the Nation's work force which is supported by the American farmer. We are subsidizing farm products with our own land, equipment, crops, and livestock. As the subsidies go to the farmer, they go straight through our hands and into the corporate pocket. Here we are paid less and less each year. But the consumer prices keep increasing.

With this being the case it is very necessary to have the most favorable credit policy with the lowest possible interest rates credited to the family farm. This is especially necessary during the period of these low prices.

Many farmers voted for President Reagan based on his proposed set-aside and debt adjustment programs. As of February 14, 1985, only 18 farmers had been approved for the set-aside program and no one had received the debt adjustment program in South Carolina. The eligibility requirements are too strict as to prevent most farmers from qualifying—and those who do qualify are walking a very thin line.

We need a moratorium on farm foreclosures and forced liquidations. This is a must for a minimum of 3 years.

We need a two-account debt relief plan. The interest that has been accrued since 1977 should be adjusted or written off. The principal of these loans should be placed in two accounts. One is based on the farmer's equity and repayment ability and the second contains the balance. The first account pays interest at 5 percent and the second is interest free. As the principal is reduced in the 5-percent account, an equal amount is taken from the noninterest account and placed on the 5-percent account. This would enable the farmer to pay his loan and the Government would then receive their money instead of both losing on a foreclosure.

Limit the amount of farm products and livestock that are grown and base that limit on the agricultural needs for those products. These should be strict mandatory quotas based on the last 4 years of production. There should be stiff price reductions for any products over quotas.

We must get and keep our products in a strict supply and demand which will save the United States money by keeping CCC prices to a minimum. For instance, on dairy, quotas should be like 3 percent reduction in a dairy industry the first year with a 2-percent reduction thereafter in a 5-year period of time to get the supply and demand back to where it belongs.

We need to set a floor price for each farm product so that a farmer can recover the cost of producing his product, plus have a decent standard of living. For example, in the dairy business the cost of production should be established regionally to ensure a local produced fresh product.

Finally, we are at a moral crossroads between free market corporate agribusiness and the family farmer as a U.S. institution. We are not only producing food for the Nation, but we also provide a stabilizing force for it.

As long as the Government has some involvement in agriculture and the family farmer continues to exist, this gives the people of the Nation a voice every 4 years as to who controls their food and their safeguard on a check and balance system.

God bless America, John Wayne, and the family farmer—and you are our John Wayne for the family farmer.

Senator WILSON. Mr. Pigford, you are next.

Mr. PIGFORD. Good morning. My name is Timothy Pigford.[1] I am a corn and soybean farmer, Bladen County, NC. I am a member of the United Farmers Organization which is committed to providing immediate assistance to farm families with financial hardships and farm credit conditions and to see that the present policies work.

We have seen various attempts made to temporarily bail out farmers and none of them have made great impacts in North and South Carolina. We know that many communities now make their living from farmers who will be pushed out this year. These trends will continue if we do not take action in the 1985 farm bill to build a sound policy which would help farmers in the hard times as well as good.

All farmers are hurting. Some have their land paid for and some are in debt for all they have, but no farmer is making money. Those of us who have had to borrow to pay for the land are losing our farms to interest payments alone.

Black farmers are facing many heavy problems. Black farmers today are losing their farms one and a half times faster than their counterparts. In the present trend there will be no black farmers in America by the year 2000.

In 1982, there was an increase in wheat farm operators compared to a decrease of 6.2 percent in black or nonwhite farmers. In North Carolina, which has the largest black population of farmers, there was a decrease of 9.8 percent for white farmers in comparison to 23.2 percent decrease in black farmers in the same period of time. In 1982 black farmers received only 1 percent of the total dollar amount of loans under the farm ownership loan program, 2½ percent of the operating loans, and 1 percent of soil and water conservation loans.

Under the limited resource loans program, which Congress created expressly to provide low interest loans to minority farmers and other limited resource farms, low interest loans to black farmers declined 68 percent from 1980 to 1982.

The main problem is the failure of USDA and FmHA to provide credit and low interest loans to black farmers. The Farmers Home Administration has failed to advance and in some cases have hindered the efforts of black farm operators to remain a viable force in agriculture.

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[1] See p. 899 for the prepared statement of Mr. Pigford.

The United Farmers Organization has developed an emergency farm debt repayment program which could be included in the 1985 farm bill to remedy our debt problems over a longer period of time. This plan would allow farms to work out from under their debts which have accrued over the years, and save the taxpayers millions of dollars that would otherwise be lost at foreclosure sale.

Our plan is to have farmers who borrow from the Farmers Home Administration put back their debt into two accounts, one account with a very reasonable rate of interest, while the other bears no interest. The first account bearing interest would be based on a farm's equity and average farm income. This would the serviceable debt. The remaining debt would be set aside until the principal in the serviceable debt account is paid down. So we would always be paying interest, but not so much to drain us. And all the principal would eventually be paid.

An additional recommendation that we would like to make for the 1985 farm bill is the Farmers Home Administration fund service which would provide loan payment deferrals. In the year 1984 only 56 North Carolina and 17 South Carolina deferrals were granted.

Also the farm bill should strengthen the Farm Credit Administration to be a farm credit service right in the same office.

The Farmers Home Administration loan processing should be speeded up. Loan approval should be decided 30 days from the time the loan application is made. And loan funds should be ordered within 5 days from the time the application is approved.

Farmers Home Administration committee should be elected rather than appointed. At least two of the three committee members should be elected by farm producers. The members must depend on farming for at least 70 percent of their income and should reflect the racial makeup of the county. Terms of office should be standard so that one member is replaced each year.

The Farmers Home Administration discrimination complaints should be investigated onsite by an objective review board appointed to oversee equitable distribution of loans and fair access to services.

The Farmers Home Administration appeals process should be designed to have one meeting at the local level followed by one formal hearing within the agency and, if still unresolved, followed by a hearing with an administrative law judge to provide an independent opinon.

The Farm Credit Administration should be strengthened to enforce within the Farm Credit Service fair loan servicing, an elected appeal committee made up of farmers and other Farm Credit Service borrowers to the Farmers Home Administration if these farmers are unable to continue to make the payments under their present Farm Credit Service interest rates.

Mr. Chairman, I would like to have put into the record a copy of the United Farmers Organization plan.[1]

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[1] See p. 901 for a reprint of the United Farmers Organization plan.

Senator Wilson. All right, Mr. Pigford. We will be happy to receive that. Thank you.

Mr. Pigford. Thank you.

Mr. Freeman. Mr. Chairman, thank you for this time today to come forth and speak for ourselves, the United Farmers Organization. We are an organization working toward keeping and building family farm agriculture and preventing the takeover of agriculture by large corporations. We represent farmers of all categories, tobacco, dairy, poultry, beef cattle, hogs, row crops, and vegetables and the fishing industry.

Our definition of a family farm is one owned and operated by a family which takes 70 percent of its income from the farm. And those who have had to take jobs to survive are also considered family farms.

Today the loss of farmers has become one of the hot items of our Government. Is it the farmers' fault? Is it because of bad management. No. It is because we have always had to pay the top prices to make our products, and in turn take what we are offered for that product.

We are the victims of dry and wet weather in the years past. When farmers were making a marginal profit and investing it in land and in more efficient equipment, interest rates were at a point where farmers could afford them.

All of a sudden they began to skyrocket in a short period of time. Production costs began to rise. Fertilizer, fuel, gasoline, tripled in less than a 2-year period. Machinery costs and everything else. Farm production costs increased 44 percent overall between 1978 and 1983. We all stood aside and watched our products go up in supermarkets, all across the country. However, between 1978 and 1983 our net farm income funds plunged 25 percent.

Imports have also been a big part of our problem, not only the farmers' problem, but the textile, steel, automobiles, and lumber companies.

In the last 10 years, 45,000 farmers in North Carolina alone went out of business. According to the USDA, North Carolina lost 4,000 farmers last year, an average loss of 77 farmers every week.

It is a known fact that one third of American farmers may not feed the Nation because one third only represent the corn, wheat, and soybean farmers. This leaves out the cotton, milk, peanuts, beef, pork, poultry, and vegetable farmers. It also leaves out the tobacco farmer. This, however, is not a food product. But it generates a large portion of jobs and salaries to buy food, clothes, houses, and automobiles in North Carolina, South Carolina and other States in the Southeast.

These United States of America have a foundation built with family farmers in the beginning. And agriculture has always held up the walls and roots of America down through the years. In these times of hardship from farmers we need the Government's help.

We must have fairness in the marketplace. We need mandatory controls which are based on a realistic supply to meet demand placed on the amount each farmer can produce. This should be backed by a floor price that will at least cover the cost of production. There should not be a cutoff point or ceiling on the size of the farm so that big business cannot have a free ride on the taxpayers.

We must reform the tax laws so that it becomes unprofitable to invest in agriculture just for the writeoffs. Business expenses which clearly indicate a desire to stay in farming for the long haul are acceptable, but quick profits in farming at the expense of the efficient farmer must be eliminated.

Family farmers who have been forced to pile up more and more debt in lieu of profits deserve a meaningful debt restructuring plan, including a moratorium on foreclosures and a realistic plan for dealing with back debt.

We must reform agricultural credit agencies. Back when farming was good, they were coming to us. We need to keep a working relationship. FmHA employees are paid by the taxpayers, and Farm Credit Service employees are paid by the farmers which are members. For these reasons alone, they should work with us in every way possible. They should be the farmers' partners in the bad as well as in the good times.

The import-export situation must be reformed. Our economy and our farms can no longer tolerate a flood of farm products produced at slave wages and under Government subsidies coming into this country.

We believe that each country should strive to support its own people by relying first on the products it produces and by restricting the import of products which it already has. The United States should not import food under most circumstances since our farmers already produce enough for nearly all products to supply our citizens.

We also briefly want to mention our position on tobacco. The tobacco farmers should not be required in 1985 or future years to pay an assessment and therefore carry the burden of the no net cost program when tobacco companies are making billions more than all the tobacco farmers in the United States combined. We request that legislation be changed so that it does not cater to the tobacco companies, but would require them to invest more of their profits in the U.S. tobacco crop.

Again, I would like to thank you for this opportunity to testify to you today for the United Farmers Organization.

I would also like to ask to submit testimony from several additional farmers who are members of our organization if it is permissible.[1]

Senator WILSON. All right. Thank you very much, Mr. Freeman. Gentlemen, we thank you. Senator Melcher.

Senator MELCHER. May I ask Mr. Freeman if Chairman Helms is aware of the United Farmers Organization position on tobacco?

Mr. FREEMAN. As of this time, we have made some contact with Senator Helms. We have tried to get to visit with him and meet with him on this trip. Congressman Rhodes is real high up on tobacco with our organization. He is working with us real well.

Senator MELCHER. You are advocating putting a tobacco tax into this proposed farm bill.

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[1] See pp. 903–907 for the statements from other farmers concerning the 1985 farm bill.

Mr. FREEMAN. Yes, sir.

Senator MELCHER. Thank you.

Senator WILSON. Thank you, gentlemen.

Now, two of our colleagues, the distinguished Senators representing the great Commonwealth of Virginia, Senator John Warner and Senator Paul Trible are here.

And we would be pleased to receive the presentation from them.

STATEMENT OF HON. JOHN W. WARNER, A U.S. SENATOR FROM VIRGINIA

Senator WARNER. Thank you, Mr. Chairman. What is your pleasure as to where you would like to have us seated?

Senator WILSON. Just take the chairs at the end if you would, Senator. We have a crowded table and a crowded agenda this morning. I apologize for that.

Senator WARNER. It is a very important subject.

Mr. Chairman, my distinguished colleague, Mr. Trible, and I take most seriously the future of agriculture in our State. Depending on the year it is either the first, second, or third largest source of income in the Commonwealth of Virginia and a subject with which I have had a long personal association. I spent my boyhhod summers on a farm, and I now operate three or four farms, having done so for nearly a quarter of a century.

Much has been said and written this year about the future of agriculture. I am delighted to see so many persons who are willing to come forward and provide the benefit of their experience and their wisdom on this subject.

In order to receive the views of Virginians involved agriculture Senator Trible and I convened an agricultural conference in the capital of our State on the 1st of April of this year. Senator Trible will provide more detail with respect to that conference. We heard from a wide range of individuals involved in all aspects of agriculture.

This year in our State the gross—I repeat, gross—farm income is projected to be $1.6 billion. However, before that figure provides too much encouragement, I point out that the net farm income in our State will be around $149 million, about half of what it was last year.

Most of our witnesses—and indeed most farmers Senator Trible and I listen to across the Commonwealth—are of the opinion that these figures could be improved providing we have a Federal policy that incorporates three elements. Indeed I am certain other witnesses have come forward and provided much of the same fabric for the legislation.

First, America has got to get a control on Federal spending, have a decisive tendering down of our Federal deficit, which will hopefully improve the dollar abroad.

Second, a move toward market oriented approach in farm programs. And finally, an increase in export opportunties.

These three elements are all interrelated and no one element is more important than the other. As you can see by the submitted testimony, Mr. Chairman, these points were expressed time and time again by the speakers at our conference.

I would close with one short story provided at our conference. I think you have got to look for a little note of humor here in all types of despair. A cattleman approached us. And he looked every inch a cattleman. And he said: Gentlemen, when the cattle business was at its depth of depression, the Federal Government provided us no help, so now that we are beginning to work our way out, please do not give us any help.

We have a responsibility here in the Congress to provide a market-oriented piece of legislation. And I am confident that the distinguished chairman, Mr. Helms of this committee, and the members on both sides, will come forward with a bipartisian bill which will hopefully get our support from Virginia.

I thank you, Mr. Chairman.

Senator WILSON. Thank you very much.

STATEMENT OF HON. PAUL S. TRIBLE, A U.S. SENATOR FROM VIRGINIA

Senator TRIBLE. Thank you very much for the opportunity to testify before you today. I want to applaud your leadership and that of Senator Melcher and others who are trying to shape a farm policy that will strengthen the farm community and make us more competitive and prosperous as a nation.

On April 1, as Senator Warner testified, we hosted a farm conference in Virginia where over 200 agricultural leaders from throughout our State gathered in Richmond. And we heard some fine testimony from people representing over 20 major commodity and agribusiness organizations in our State.

I would like to ask unanimous consent on behalf of Senator Warner and myself that their testimony be made a part of the record of these proceedings.

Senator WILSON. Thank you, Senator Trible. We would be most pleased to receive them.[1]

Senator TRIBLE. I would commend this testimony to your attention.

Our farm constituents spoke with authority on a number of important issues which are the subject of debate before the Congress. I would like to briefly summarize the major themes because I believe they are central to the farm bill debate.

First, we found that Virginia is not escaping the problems that beset farmers in the Midwest and other parts of the country. We have been spared much of the pain and distress. But there is still hardship in the rural economy. Many agribusiness people will be out of business if a measure of profitability is not restored to farming.

Second, all the speakers were unanimous in their view that we must reduce the Federal deficit by spending restraints and economic growth and not by new taxes. Only by reducing the huge Federal deficit can we lower interest rates and of course make our farm products more competitive in the world market.

Third, all participants agree that we need to expand export opportunities. I know you have heard this time and time again from the witnesses before this committee. Our Nation needs a stronger and more extensive export program. The United States must also insure access to other markets and put other nations in the world on notice that trade must be fair as well as free.

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[1] Retained in committee files.

Finally, Mr. Chairman, there was an almost overwhelming consensus that we need to move toward a market-oriented farm economy. We really are at a crossroads in farm policy. The question we have to resolve is, do we continue the New Deal policies of the last 40 years that are not working, or do we begin to limit the role of the Federal Government in farming?

With one exception, out of the 200 farmers and farm leaders gathered at our conference, all the farmers of Virginia that we heard from believe we should limit Government intervention and subsidies. This must be done over a multiyear period. We cannot pull the rug out from under the farm community.

But they believe that we need to move toward a more market-oriented economy. And I believe that as well.

Those are the major themes, Mr. Chairman. I again thank you for the opportunity to join you today. I thank you for your patience in listening not only to our testimony put to testimony from the people who are interested in the farm economy from around our country.

Senator WILSON. Thank you.

Senator WARNER. I would also like to extend our appreciation to our distinguished colleague from Montana, Senator Melcher.

Senator MELCHER. May I ask a question of the two Senators from Virginia?

Senator WILSON. Surely.

Senator MELCHER. We all know that food prices for consumers here in the United States are somewhere around 16 percent of disposable income. That is the lowest in the world. It is an historic low. And yet farmers are going broke, a lot of them are going broke.

Was there any significance to when you set the hearing in Richmond, on April 1, April Fools Day?

Senator WARNER. No. It was simply the day in which we could get the principal hearing room in the State capitol. And I think we were provided with an opportunity where Mr. Trible and I——

Senator MELCHER. I appreciate that straight answer, John.

Senator TRIBLE. On that note perhaps we should take our leave.

Senator WILSON. Before you do, Senator Trible, let me express my gratitude and also commend you and Senator Warner for the initiative you have displayed in convening that conference——

Senator MELCHER. Let me do the same.

Senator WILSON [continuing]. On April 1 or any other day. I think that that is the kind of thing for which your constituents, particularly those in agriculture, must accord you a great deal of respect and gratitude. The record that you have assembled from your conference there in Richmond is going to be of great value.

I should tell you that at the risk of being repetitive—and others have heard me say this before this morning—there are echoes all across the land of what you heard originally at your conference. The points with respect to deficit reduction and the relationship between that and the strong dollar and the unfortunate inhibition that the too strong dollar has upon our exports, and in particular comments that you received with respect to returning to a market oriented farm program, seem to have resonance, whether it be in Richmond, in Omaha, in California, and I would suspect in Montana. And we heard from New York this morning, from a number of other States, and there is a clear and consistent theme being sounded.

So we are most pleased to you for being with us, for being patient, and for expressing as succinctly and as eloquently, as you did, your findings there.

Senator **Trible**. Thank you.

Senator **Warner**. Thank you, Mr. Chairman.

Senator **Wilson**. We will now entertain the testimony of George B. Watts, president of the National Broiler Council, and afterwards hear from Mr. Craig.

STATEMENT OF GEORGE B. WATTS, PRESIDENT, NATIONAL BROILER COUNCIL

Mr. **Watts**. Thank you, Mr. Chairman. I appreciate this opportunity to appear before you today on behalf of the National Broiler Council.[1]

Our members have a strong and vital interest in the development of future agricultural policy. We, along with many other nonsupported commodity groups have historically viewed the process of writing a farm bill as an exercise that at best did not directly affect us or at worst something we could survive with minor adjustments.

The industry can no longer afford to take such a narrow view. We share the concern that in the past farm policies have been developed with little or no regard for the effect of those programs on poultry and livestock producers or the consumers of our products.

The devastating impact of the 1983 Payment-In-Kind Program on the broiler industry is the single event that convinced us that a change in the direction of farm policy is important to our survival. We view the 1983 PIK Program as the inevitable result of farm program failures in earlier years. And we fear that history will repeat itself if our farm programs continue to rely on Government intervention rather than market forces.

Our purpose in appearing before this committee today is not to endorse or support a particular bill but simply to discuss the direction or approach that we feel is needed in future farm policy. We endorse the principle of market-oriented agricultural policy and commend both the administration and Chairman Helms for recognizing that market responsive policies will best ensure a healthy and productive food system in the years ahead.

We recognize that it is not feasible to achieve fundamental reform of a 50-year policy on a short-term basis. However, we urge the Congress to use this opportunity of the 1985 farm bill to move toward aligning current commodity programs to market realities.

In our view, Mr. Chairman, the future farm policy debate should not be about what direction it takes, but rather how we should get there and how we can best achieve an orderly transition. We have several specific policy objectives that I would like to review and which we would like to see put in the farm bill. I will just very briefly mention a few.

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[1] See p. 907 for the prepared statement of Mr. Watts.

We believe that loan rates should be determined by a flexible market based formula to encourage adjustment to changes in market conditions.

The farmer-owned grain reserve was originally established as a supply assurance device, but subsequent use has been to enhance prices. In order to avoid excessive accumulation of these products a cap should be applied to limit the entry of eligible commodities. Release prices should be set on a realistic level and sufficiently staggered to assure that price will be available to the market.

The two-tier pricing systems for commodities that result in export prices being lower than domestic prices are basically unfair to U.S. consumers and domestic users of agricultural products and should not be part of the 1985 farm bill.

Agricultural exports are an integral part of a market-based farm policy. Therefore, a strong section on agricultural exports should be included in any farm bill developed by Congress. As producers of a commodity which continue to lose its fair share of international markets, we hope the trade title of the 1985 farm bill will offer some means for American producers to fight unfair and predatory trade practices engaged in by foreign competitors. We need new trade negotiations, fair trading rules, and improved dispute settlement mechanisms.

We commend this committee for devoting the time necessary to hear the many voices that are involved in the farm policy development process. We are hopeful that the Congress will shape new farm policy appropriate for the future rather than continue with policies that no longer work as well.

And finally, Mr. Chairman, we believe, as you have pointed out, a sound and balanced economic program including reduced deficits, lower interest rates and a continued low rate of inflation is a necessary foundation for building any successful farm program.

Thank you.

Senator WILSON. Thank you very much, Mr. Watts. We appreciate your testimony.

I would like to first mention, with respect to your point 5 on page 4 of your testimony relating to exports, that we are very much concerned with the fact that a substantial amount of American agriculture, and the vast majority of agriculture in my State, is in the situation that you described. These are commodities which are not covered by an existing farm program. And they are being seriously affected both by export restrictions and by subsidized imports into this country.

A great deal of your testimony was echoed at the field hearing, which I held a few weeks ago, and was directed to those problems. I can assure you that they will receive attention in the 1985 farm bill. Thank you, sir.

Senator Melcher.

Senator MELCHER. Yes. Thank you, Mr. Chairman.

Mr. Watts, first of all, I know it is a little bit late, but you did not take a position on PIK. The Broiler Council did not take a position on PIK.

Mr. WATTS. That is correct, Senator. I point out in the testimony that we submitted for the record, which I did not cover fully today, that we, along with the cattle producers and many others, have not in the past taken positions on the farm legislation. We feel that there is a need to get involved at this point.

Senator MELCHER. I appreciate that even though it is belated. I would not have felt quite so lonely out there if at least I had the National Broiler Council. I do not know about the livestock people.

Mr. WATTS. Let us assure you we will be commenting on PIK in the future.

Senator MELCHER. I want to separate out PIK, as I think you mean it in the general sense, and PIK for export. How do you feel about that? I think the farm bill is now calling it bonus export.

Mr. WATTS. That is correct.

Senator MELCHER. What is your feeling on that?

Mr. WATTS. We generally favor that approach. We have not reaffirmed the former positions that we had 2 or 3 years ago, but we still view it as an opportunity at least to move some commodities like ours into markets where there are other countries that are subsidizing their products. We do not favor any institutionalized program or subsidy for exports.

Senator MELCHER. Case by case.

Mr. WATTS. Case by case.

Senator MELCHER. I appreciate that. When PIK was first proposed in 1983 it immediately struck me that that part of it would be beneficial for the country. I never opposed that part of it. Maybe the Farm Bureau is wise in saying bonus export.

Now then, I think I interpret your comments to also mean you feel in the trade policy that subsidy is the name of the game. And that is a competition which we should subsidize also?

Mr. WATTS. Senator, only perhaps on a very short-term basis.

Senator MELCHER. You do not want a trade war forever?

Mr. WATTS. We do not think it will work.

Senator MELCHER. All right. Thank you very much.

Thank you, Mr. Chairman.

Senator WILSON. Thank you, Senator Melcher.

Mr. Watts before you go, let me extend to you the same invitation that I extended earlier to another witness, Mr. Gerace, to submit supplemental testimony in writing. At the top of page 5 you make the statement:

> The U.S. poultry industry has sought relief under current GATT rules and procedures to no avail. We need new trade negotiations, fair trading rules, and improved dispute settlement procedures.

I emphatically agree with your statement. What I am looking for is some specific evidence that can document your statement that the poultry industry has sought relief under the current GATT rules to no avail.

Mr. WATTS. We can document a very sad story for you. We will certainly submit that.

Senator **Wilson**. I will be grateful to take that statement from you as well as any suggestions you may have for change. Your experience is, I assure you, not unique to the poultry industry, but applies to any number of commodities. And they tell the same sad story. We would like to have yours as part of the record so that we may better document our case for reform.

Mr. **Watts**. I appreciate that opportunity to do so, Senator.

[The following material was received by the committee:]

National Broiler Council,
June 21, 1985.

Mr. Warren Oxford,
Senate Agriculture Committee,
Washington, DC.

Dear Warren: In response to Senator Pete Wilson's request of our President George Watts we are submitting the attached to be included in the farm bill hearing record. Mr. Watts' testified on April 25, 1985, to the Senate Agriculture Committee.

We appreciate your request.

Sincerely,

William P. Roenigk,
Director/Economic Research and Membership Services.

Enclosure.

Chronology and Status of Poultry Industry's Section 301 Petition

Chronologically, the flow of activities regarding the poultry industry's Section 301 petition have been as follows:

September 17, 1981.—Twelve poultry associations: the National Broiler Council, Poultry and Egg Institute of America, Delmarva Poultry Industry, Inc., and the state poultry associations of AL, AR, FL, GA, MS, NC, PA, TX, and VA, filed a petition under Section 301 of the Trade Act of 1974, as amended, with U.S. Trade Representative (USTR) against the European Community.

October 28, 1981.—USTR initiated its investigation of the petition's three basic allegations which are: (1) EC export subsidies violate Article 10:1 of the Subsidies Code in that the EC, through such subsidies, has obtained more than an equitable share of world trade in whole chickens and has displaced U.S. whole chicken exports; (2) EC export subsidies violate Article 10:3 of the Subsidies Code in that they result in prices for whole chickens materially below U.S. prices in specific markets; and (3) EC export subsidies threaten serious prejudice to U.S. poultry interests in violation of Article 8 of the Subsidies Code. Serious prejudice is alleged to result from the recent expansion of both the product coverage of the EC subsidy scheme to include chicken parts, turkey and turkey parts and the geographic coverage to include exports to the entire world except the U.S. Serious prejudice is further alleged to result from failure of the EC subsidy scheme to limit the level of the subsidy or to discourage excess production of poultry. The petitioner further alleges that the Government of France has provided national export subsidies on poultry.

February 16, 1982.—U.S. and EC officials consult in Geneva to discuss the petition's complaints and to find a mutually agreeable solution. No mutually agreeable solution was reached.

June 10, 1982.—USTR filed an Article 7 request for information from the EC on French national subsidies in response to evidence that France grants its poultry exporters a significant subsidy in addition to the EC export subsidy.

July 12, 1982.—President Reagan issues official memorandum to USTR directing expeditious examination of Brazilian subsidies and continued action on the EC issues. President asks for status report on September 30, 1982.

August 30, 1982.—U.S. and Brazilian officials hold informal consultations for the purpose of obtaining more information about Brazilian subsidy practices relating to the production and export of poultry and to seek Brazilian cooperation in a more disciplined use of export subsidies on the part of both Brazil and the EC.

September 21, 1982.—USTR filed a formal Article 12 consultation request (same type that was used to initiate the U.S. case against the EC) with Brazil since the informal consultations were not satisfactory.

September 30, 1982.—USTR reports to the President the status of efforts to resolve the Section 301 poultry industry petition. No new date was given for the next status report to the President.

October 7, 1982.—U.S. and EC officials hold a second round of consultations in response to Article 7 request filed on June 10, 1982. The EC furnished little data and information on the French national subsidies.

November 20, 1982.—Under the Subsidies Code, Brazil had sixty days from the time of filing of a consultation request (September 21, 1982) during which Brazil is obliged to meet. USTR was unable to arrange a meeting with Brazil during this sixty day period.

January 24, 1983.—In a joint letter twenty-nine Senators ask U.S. Trade Representative William E. Brock to "resolve the (poultry) petition and rectify the current detrimental effect of their (EC) export subsidies on U.S. poultry exports." The letter points out that the only actions that have been taken since the filing of the poultry industry's Section 301 petition on September 17, 1981 has been two consultations with the EC and one informal meeting with Brazil. Senators ask Ambassador Brock if "more effective (trade) tools" are needed to resolve issues.

February 8, 1983.—U.S. Trade Representative William E. Brock responds to January 24 letter from 29 Senators. Brock explains that delays were result of "difficulties" but, nonetheless, USTR is committed to continuing to "press this issue."

February 28, 1983.—Official bilateral consultations between the United States and Brazil failed to take place as scheduled as a result of error on the part of USTR/Geneva. A USTR/Washington official does meet informally, however, with Brazilian officials stationed at GATT/Geneva. EC officials suggest to USTR that an informal, outside-the-GATT structure, three-way (United States/EC/Brazil) meeting be held to settle poultry issues. USTR agrees to idea if this action does not slow or impede official action under GATT.

March 7, 1983.—Nine members of the House Committee on Ways and Means/Subcommittee on Trade in a joint letter to U.S. Trade Representative William E. Brock express disappointment in the lack of progress toward the resolution of the Section 301 poultry industry petition. They urged Brock to address poultry industry problems "as expeditiously as possible notwith standing such complications" and "rectify the current detrimental effect of their (EC and Brazil) export subsidies on U.S. poultry exports."

March 22, 1983.—U.S. Trade Representative William E. Brock responds to the joint letter of March 7 from 9 members of the House Committee on Ways and Means/Subcommittee on Trade. Response is quite similar to letter sent Senators on February 8, 1983. Brock does note, however, that poultry has "figured prominently" in the current round of bilateral talks between the United States and the EC Commission.

April 1, 1983.—United States and Brazil hold official consultations in Washington, D.C. Little, if any, progress results. Both sides agree to submit answers to questions that were exchanged.

September 7, 1983.—Statement of facts and request for conciliation delivery by USTR to the Subsidies and Counterveiling Measures Code Committee.

November 18, 1983.—Official conciliation talks held between United States, the European Community and Brazil. No agreement is reached.

August 8, 1984.—Senator Joseph Biden (D/DE) and nine other Senators jointly submitted and have approved by Congress an amendment to the second supplemental appropriations, 1984 that expressed the sense of the Congress that the President should use "all practicable means to negotiate and end to the use of unfair trade subsidies for poultry and egg exports by the countries of the European Economic Community and Brazil."

October 16, 1984.—Trilateral conciliation meeting was held between United States/EC/Brazil under auspices at GATT. No progress was made toward ameliorating the export subsidies issue.

Early 1985.—U.S. Trade Representative Office continue to discuss with the European Community calculation of the EC grain restitution as it is used for the EC chicken export subsidy. USTR offers to resolve Section 301 case if the EC will limit chicken export subsidies to the "true" grain differential. EC officials, as of March 1, 1985, have not responded to the offer and USTR officials involved in the poultry case are not optimistic of obtaining a response. Brazilian export subsidy programs for chicken continue to be assessed by USTR, but Brazilian officials are very reluctant to acknowledge extent and scope of export aids.

If appropriate responses from the EC and Brazil are not received, USTR will attempt to gain inter-agency approval for a recommendation to have the case move to the Subsidy Code panel stage. At the panel level, the case will be decided by a third party.

May 23, 1985.—Eleven Senators sent a letter to Secretary of Agriculture John Block urging him to use poultry meat and eggs as a target commodity in the $2 billion/3 year Export Enhancement Program. Use of these products may encourage the EC and Brazil to become serious about negotiating under the Section 301 Action, the Senators' note.

Senators signing the letter are: Biden (D/DE), Bumpers (D/AR), Cohen (R/ME), East (R/NC), Hollings (D/SC), Mattingly, (R/GA), Nunn (D/GA), Roth (R/DE), Sarbanes (D/MD), Specter (R/PA), and Thurmond (R/SC).

Senator WILSON. Next we will hear from John D. Craig, the counsel representing Craig & Craig Law Corp., accompanied this morning by John C. Butler, Jacque Butler, and J.C. Butler of Butler Farms in Brazil, IN.

STATEMENT OF JOHN D. CRAIG, ATTORNEY, CRAIG & CRAIG LAW CORP., ACCOMPANIED BY JOHN C. BUTLER, JACQUE BUTLER, J.C. BUTLER, AND JANET BUTLER

Mr. CRAIG. Thank you very kindly, Mr. Chairman and Senator Melcher.

May I introduce those who are here with me. To my immediate left J.C. Butler. To his left is his father, John Butler. Directly across is Jacque Butler, and their daughter, Janet Butler.

We are honored to have been asked to appear before this committee. We represent no group or association.

In the summer of 1984 a handful of Indiana farmers, including those of us here, foresaw the impending crisis in American agriculture and decided to attempt to do something about it. On our own. Utilizing our own resources, we embarked upon a national initiative in an attempt to contribute to the solution of the problem.

The Butlers represent the fourth generation of American farm family. They farm over 3,000 acres in the Wabash Valley of Indiana. And they have consistently been recognized as one of the best managed and most productive farms in Indiana.

That fact notwithstanding, in January this past year in the midst of our efforts, they were forced to declare bankruptcy. With the work of no more than a half dozen people we have attempted to secure suggestions and proposals from the best minds in America. We have made over 3,000 such contacts. This has been a grass roots movement of the most fundamental sort.

On this foundation we respectfully submit the suggestions to this committee for your consideration.

We strongly subscribe to the principles of the free market. However, it is our belief that because of the subsidization of foreign governments of agricultural products in the international market, because of our current pricing mechanism for domestic products, the free market will not succeed now nor in any near term.

It is our belief that American agriculture is in crisis. I refer you to addendum 1 attached herein.[1] Because of the crisis mechanisms that bear no relation between the value of the products and the price that the producer receives, American agriculture is the only industry in which the buyer acting through the commodities exchange sets the price for the product.

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[1] See p. 909 for addenda 1-7 to the statement of Mr. Craig.

It is our proposal that American agricultural products must be priced on the basis of cost of production plus a modest margin of profit. This, rather than resting at the valuable and speculative uncertainties of the commodities exchange.

We ask for a 100-percent safety net for the producer of American agricultural products. The cornerstone of our proposal, Mr. Chairman, calls for the establishment of an American agriculture board. This board should consist of the representatives of American agriculture and its allied support industries, as well as representatives of the Department of State and those others involved in the formulation and administration of our foreign policy.

In addition to the task of determining the floor price of American agricultural products, this board should be charged with the responsibility for the establishment of an international marketing plan coincident with our treaty obligations and the foreign policy decisions of the United States.

We submit that this bill will for the first time in 50 years interject the ability to compete into the American market.

We further suggest a two-tier pricing approach, one price for domestically consumed commodities, not to float in competition with our foreign competitors.

The fundamental goal of our program is to eliminate the policy of massive subsidization that has so drained the American Treasury and has so taxed the American public. To accomplish this end we recommend that the price of agricultural products should be passed directly through the chamber of commerce to the American consumer.

American food is the least expensive in the world. It constitutes 12 percent—our figures, Senator Melcher, perhaps your figures are more accurate—of our disposable income as compared to some 25 percent in Japan and the Soviet Union.

Further studies have shown that an overwhelming number of Americans, 80 percent, would accept a reasonable increase in the cost of their food in order to salvage American agriculture. Additionally, it is our belief that the American consumer would prefer to pay for their food directly rather than assuming the hidden cost in the form of tax supported farm subsidies.

Our figures show that under this approach there would only be a modest increase in the cost of our food products. And please refer to addenda 2, 3, and 4, and the graph behind me that shows that a hypothetical 2 percent increase in the price of cereal grain products would result in only a 3-percent increase for register for beef and pork products. This translates to 1½-percent increase in the overall consumer price register.

These are not rewards. When the American farmer makes a profit, he becomes a solid and meaningful taxpayer. Please refer to addendum 5 and 6 and the graph behind me, which reflects that the same hypothetical increase in the floor price for agricultural products, for cereal grain and livestock producers alone, increase the revenues of the Treasury $12 billion.

The elimination of subsidy programs we would base upon the 1984 experience eliminate an additional $24 billion from the spending side of the equation. We believe that a conservative projection of some $30 to $40 billion will be realized. Moreover, profit to

American farms will generate an additional $248 billion in spending through our competence. I refer you to addendum 7.

In summary, it is our belief that that which we respectfully present to you establishes profit in agriculture and enhances our foreign policy and foreign trade posture while at the same time reducing our Federal deficit by tens of billions of dollars. It also allows us, I would submit, Mr. Chairman, that which Senator Glenn spoke of this morning, tremendous opportunity for nonfood use research in agriculture.

Most importantly, it takes great strides in the salvation of our American agricultural industry while preserving the heritage of rural America and the tradition of the American family farm. It is for these reasons, and these alone, that we appear before you, that those generations that follow us may experience the same benefits which we have been so privileged to enjoy.

This is, Mr. Chairman, a long-term plan as discussed this morning by Senator Glenn. And we submit it for consideration of this committee and for the consideration of its inclusion within the 1985 farm bill.

Senator **Wilson**. Thank you very much, Mr. Craig. We appreciate that you and the Butler family have undertaken your own conference or field hearing and presented us with some very interesting and valuable information.

Senator Melcher, do you have any questions?

Senator **Melcher**. Only one.

Mr. Craig, this does not contemplate any subsidies on exports?

Mr. **Craig**. No, it does not, Senator. I would prefer to have the Butlers respond to that perhaps in the record too, since I think they can respond more accurately. J.C.

Mr. J.C. **Butler**. It does not deal directly with the subsidies of exports. More or less we prefer to let the free market approach——

Senator **Wilson**. Let me ask that you use the microphone.

Mr. J.C. **Butler**. We prefer to let the free market prevail in the world market so that we can compete directly with those people from foreign countries. We, on the other hand, feel that we need to establish some sort of support for the national produced grain, or whatever agriculture commodity we might be discussing at the time.

Mr. **Craig**. I might only add, Senator, it is our belief that if a profit margin is established, and perhaps a more extensive domestic market, we can have greater flexibility in our competitive posture in the rural market. We would certainly not eschew the possibility of subsidies to foreign products. It would be our preference that hopefully that would not be necessary.

We also might add that that which we present here we would hope to consider as interim in nature, not to establish this as again another layer of bureaucracy for our Government, but as a means of providing our way through the path in the free market to which we so strongly subscribe.

Senator **Melcher**. Well, the problem with a two-tier approach in wheat is that. Unlike many other commodities that we produce in this country, we only consume 30 percent of the average or the expected annual wheat production. So 70 percent is what is available that can find a home somewhere else around the world.

Mr. **Craig**. We can certainly appreciate the problem. I think the figures on corn, which you are perhaps more familiar, are the opposite.

Senator **Melcher**. Very much the opposite.

Mr. **Craig**. We are talking about a comprehensive American food policy, not just cereal grain and corn, all agricultural products. But we certainly subscribe to that and are very flexible. There are considerations as to how this happens.

Senator **Melcher**. We certainly appreciate that. And my question does extend to the whole broad array, whole spectrum of commodity production in this country.

Thank you. And I commend you for your diligent presentation here and being able to present it.

Mr. **Craig**. Well, these folks have expressed it, Senator Melcher. I mean that last comment for the Butlers.

Senator **Wilson**. I am interested in the response that Mr. Butler made about wanting to return to market orientation, and wanting to be able to compete with regard to the export market. As I read your testimony, Mr. Craig, I gather what you are saying is that your own goal for American agriculture cannot be achieved through a free market now nor in the near term. Is your proposal for an establishment of American agricultural board of a transitional nature over a period of time to get back to that free market orientation, when it can successfully respond to the income needs of the farmer?

Mr. **Craig**. Yes, Mr. Chairman. I think that is our full extent. The problem we find that we are facing so dramatically now is that it seems that there is such a continued emphasis and stress upon susidization within the agricultural community. And we feel that that misses the mark for our intended goal, which is to establish probability and to increase the revenue percentages that we must have so that we can attack the problems of the imbalance in our budget and the strong deficits that we experience.

We would not subscribe to a contrived means of control of American food products any longer than necessary. But in the interim we would stress the importance that this type of cost be funneled through the chamber of commerce as opposed to through the U.S. Treasury. We feel it is a very big source of problems in agriculture.

Senator **Wilson**. That distinction is one that I would invite you to shed a little further light on. Because I think that very likely those who adopted the present system as a result of the Great Depression of the thirties might have made the same statement then. It is necessity to allow the farmers to get through this depression. And yet it has been with us ever since. We have found that we have made a situation, a bad situation worse.

You are suggesting not that we continue the current system of support, but the subsidies being provided through the Treasury and the American taxpayer by a different system. I am not quite clear on how that system would operate.

Mr. **Craig**. Well, first of all, I share and I applaud your concern for any inference that might be here that we are simply again trading one bad result for another. I think we would both share the same basic practical, economic, and political philosophy as applies to the free marketplace.

I can only respond by saying that if we could see the alternative, we would wholly subscribe to it and back it to the full.

For the means of handling it, again I turn this to Mr. J.C. Butler who is, incidentally, a professor on behalf of the Purdue University and speaks with some knowledge and authority.

Mr. J.C. **Butler**. Your question is how it—if you could repeat it.

Senator **Wilson**. Yes. My question specifically relates to the portion of Mr. Craig's testimony in which he has said in addition to the task of annually determining the price of agricultural products, this board, a proposed American agricultural board, should be charged with the responsibility of establishing an international marketing plan affecting obligations and foreign policy decisions of the United States.

You submit that this will for the first time in 50 years inject predictability into American agriculture. The part that relates to a marketing plan I think is more than worthy of our full exploration because I would have to say, and have said before, perhaps to the tedium of some of my colleagues, we have not begun to do nearly a good enough job as a government in doing one thing a government should be doing, and that is in assisting the American farmer.

And indeed, in securing export equity, we have not been nearly tough enough in our negotiations with our trading partners. To be blunt, we have been played for patsies. We are so concerned about not projecting a protectionist image, that we have suffered by affording liberal access to our markets while we are shut out of foreign markets.

That is just foolishness. That is a mockery of the concept of free trade. It has become not a fact of reality but an empty phrase and a hollow wish. And that will not change unless we make a very distinct change in our negotiations with our trading partners.

To that extent I have been critical of the administration that I worked hard to elect and to reelect. In most instances I heartily support it. But we have to do a much better job than we have done in the area of trade.

And when you mention foreign policy decision making, I will be the first to concede, serving as I do not only on this committee but also on the Armed Services Committee, that it is a very tangled web, it is complex. We do have conflicting obligations.

But I will only say again that I do not think that agriculture should be the bastard stepchild of other foreign policies. We intend on giving a full title to trade policy in the 1985 farm bill. I personally think the chairman's version, Mr. Helms' version, is superior to that offered by the administration.

Returning to your testimony, the point that I do not quite understand is the relationship between what the commodities exchanges are doing and, what you would have this agricultural board do instead.

Mr. J.C. **Butler**. The role of the agricultural exchange—commodity exchanges as they exist today are a marketplace for the establishment of the price through buying and selling of promises to deliver or to accept delivery of agriculture commodities. This board, on the other hand, can examine agriculture commodity by commodity, a balance sheet approach which is commonly used to predict needs.

Based on that decision they could then allocate so much of the U.S. production to exports, to domestic use, and establish a given price for the domestically used grain. They would accept the method or the export trade, the export commodities, and would be responsible for marketing those commodities. It would be a unified marketing effort.

Senator WILSON. In other words, in place of what today exists as an exchange, you are suggesting that for a period of transition that this American agriculture board would actually undertake as an entity to buy and then reallocate?

Mr. J.C. BUTLER. We would not propose that they would buy necessarily. It would be more of consignment basis.

Senator WILSON. You would actually have them set a price and make a decision, allocating the total crop between domestic and foreign bidders?

Mr. J.C. BUTLER. We do not propose they replace the commodity exchanges. They serve a very important function. We feel that for the interim period that this could act in complement with the commodity exchanges.

Senator WILSON. Well, I must say that I am still not clear on this proposal. Maybe the best thing for us to do would be to invite you to spell that out a little more clearly.

Mr. CRAIG. We would be most pleased to do so, Mr. Chairman. In the interest of time and the requirements of this committee, we would be very happy to submit supplemental statements regarding it.

I would only say that we would collectively share your position as far as the necessity to deal more dramatically or directly, more realistically, with the problems that have been created in the international agricultural marketing arena. We realize that these problems have been created for American agriculture because of the policies of foreign countries and that our response to it must, I think, recognize that that in fact is the case and that we must send a message to the world that we do intend to protect our most precious machine, product, and export.

Senator WILSON. We would welcome that. And in addition, if as a part of that you care to illustrate how the current operation of the commodities exchanges is not responding to need, we would welcome that as well.

Mr. CRAIG. We would be most happy to submit it and submit it in detail.[1]

Senator WILSON. Mr. Craig and members of the Butler family, we are most grateful to you not only for appearing this morning but for all of the hard work and the careful examination that has preceded your appearance this morning. Thank you very much.

Mr. CRAIG. Thank you, Mr. Chairman.

Senator WILSON. We will take a brief recess to allow our overworked reporter to change the tapes and do whatever else is necessary to continue the hearing.

Senator MCCONNELL [presiding]. We will come back to order. I apologize for the delay.

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[1] As of press release no response has been received from Mr. Craig.

The next panel is Rev. Ignatius J. Strecker, archbishop of Kansas City, on behalf of the United States Catholic Conference, and the National Catholic Rural Life Conference; Rev. Kenneth Wittrock, from Nebraska, representing the Lutheran Council in the United States; Don Reeves, family farm consultant from Nebraska, representing Interfaith Action for Economic Justice; John Pender, agricultural policy, Bread for the World.

Are those folks here?

Mr. REEVES. Yes, Senator, and we would request that the next witness on your list, James Skillen, would join our panel.

Senator MCCONNELL. All right.

Mr. REEVES. And we would like to have Mr. Mark Schullenberger, on the staff of Bread for the World, to be at the table, but not make a statement.

Senator MCCONNELL. Sure, no problem. Come on up. We are glad to have you.

There is only one witness left, and that is Mr. Delaney. Mr. Delaney, why don't you come up, too, and we will work our way down the table.

OK, sir, go right ahead.

STATEMENT OF THE MOST REVEREND IGNATIUS J. STRECKER, ARCHBISHOP OF KANSAS CITY, KS, ON BEHALF OF THE UNITED STATES CATHOLIC CONFERENCE AND THE NATIONAL CATHOLIC RURAL LIFE CONFERENCE

Reverend STRECKER. Thank you, Mr. Chairman. I am Archbishop Strecker of Kansas City. I represent the United States Catholic Conference and the National Catholic Rural Life Conference, of which I am the president.

I thank this committee for the opportunity to be with you today and to present a brief summary of my written statement, which I would ask, Senator, be included in the record.[1]

Senator MCCONNELL. Yes. Without objection, that will be included, and I might say to the other witnesses, we would like to put your printed statements in the record, and if you could, confine your comments to 4 or 5 minutes.

Reverend STRECKER. I appear today for three major reasons: First, despite abundant crops worldwide, nearly half a billion people, mainly in the developing countries in the Third World, are malnourished and face daily hunger and starvation; second, in the malfunctioning international food system, the United States is the dominant power, and therefore, we as Americans should accept the major responsibility; third, our U.S. land, food, and agricultural system itself is in serious disarray.

First, the international scandal of hunger amidst plenty has been brought poignantly to our attention by the famine in Ethiopia and hunger in other countries. We are encouraged, though, by the fact that the Congress has enacted legislation to add nearly $800 million in immediate food aid for Africa.

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[1] See p. 917 for the prepared statement of Reverend Strecker.

Yet the present situation, tragic and urgent as it is, runs the risk of distracting us from the longer term needs of that continent and the rest of the world society.

I have included more details on the international aspects of food policy in my opening statement. But now, I wish to speak to a few matters closer to our home.

I am a pastor, not an economist. I am concerned not only about our brothers and sisters in the Third World, but even more so about our parishioners and neighbors who are being hurt by the malfunctions of our land, food, and agricultural system that is forcing ever-larger numbers to lose a lifetime investment and give up a way of life that has been regarded generally and for two centuries as the foundation of American democracy and the American economy.

Our agricultural system is in deep crisis. Policy changes necessary to meet this crisis go far beyond extensions of credit and mere adjustments of target prices and loan levels. They require a very basic review of the systemic structure of U.S. agriculture and of our entire food system.

I firmly believe that present policies will inevitably lead to the financial self-destruction of our American agricultural system.

As pastors, my fellow bishops and I are more and more aware of the human side of this crisis and of the anguish many rural and urban people and families suffer, and who feel helpless in the face of the developments beyond their control.

It is out of this pastoral concern for our American people that I urge you, the Congress, to address very fundamental questions about land, food and agriculture—and may we not settle for minor changes.

At present, no comprehensive food policy guides national programs for our food and farm sector or links the needs of producers, consumers, low-income people and those abroad who depend upon us.

The first goal of the 1985 farm bill should be to develop a policy that will address these diverse needs in a systematic, integrated, equitable way. We need first a just food policy, and from this, hopefully, we could develop a land and agricultural policy.

Our first concern with our Nation's land, food and agricultural system is that public policy seems to foster an increasing concentration of ownership in the farm system. This will inevitably lead to injustice.

We need only look at our Nation, whether in the Northeast or the Southeast, in the Northwest, the Southwest or the Midwest, and we are concerned. We are particularly concerned about the family farm—grain farmers, dairy farmers, fruit farmers, and vegetable farmers. We believe that our overall farm policy ought to give the highest priority to medium-size farm operations. The widest distribution of land ownership, rural or urban, speaks to the strength of our Nation.

Family farms are efficient in economic terms and resilient to changes in the overall economy. Beyond the pure economic reasons, however, there are the more important human and social reasons for preserving the family farm. Their disappearance has a serious negative social impact on our rural community. As farmers leave the land, many businesses which depend on them close, and rural employment opportunities vanish.

If present trends continue, many rural communities will die, and our food production system will be controlled by fewer and fewer people.

History, past and present, tells us clearly the human and social evils of such tight control.

The most pressing area of needed policy reform is credit. The current recession offers an easy temptation to initiate across-the-board farm debt relief. But we believe that any credit rescue program should be available primarily to moderate and small-size farms. Debt relief must serve the greatest number of our people.

The second basic reform should be structuring of farm income support programs to benefit principally the owner/operators of moderate-sized farms who are efficient managers, but need some income protection. For the longer haul, a basic and, I daresay, a radical but necessary reform is of our tax policy in order to stop consolidation of ownership and to reduce the incentives for nonfarmers to invest in agriculture as a tax shelter.

The present policies are a social injustice not only in rural America, but to all Americans.

Another special concern of our land, food, and agriculture policy is resource conservation or stewardship. At its heart, stewardship is concerned not only about sharing the Earth's resources today, but even more urgently, preserving them for the future.

Our concern about the domestic food system is not confined to the plight of producers. It extends equally to consumers. The cruel reality of hunger and malnutrition is a grim fact of life, even in America. Hunger, and the dramatic increase in the demand for emergency food assistance is a grave concern to all of us. We experience this daily in our parishes through Catholic charities, through our ecumenical groupings; we know the private sector will not respond indefinitely, nor can it.

Today, we urge Congress to continue the present programs that are and have been quite successful in eliminating hunger and malnutrition.

But my particular purpose today is to bring to this committee the urgent concerns of the U.S. Catholic Conference and the National Catholic Rural Life Conference, for a comprehensive land, food and agricultural policy which links, in a responsible manner, the interests and needs of both our producers and our consumers, the special needs of the hungry of the world and at home. Hopefully, principles of justice will guide those who carry the heavy burden of deciding these human, social and moral issues. Economic and political solutions, unless based on moral principles, will only magnify our problems.

Food should not be just another commodity in the marketplace. Food is directly related by the divine creator of this earth to the sacredness of all human life.

Mr. Chairman, I thank you for this opportunity.

Senator McConnell. Thank you, Father.

Reverend Wittrock, you are next.

STATEMENT OF REV. KENNETH WITTROCK, PILGER, NE, REPRESENTING THE LUTHERAN COUNCIL IN THE USA

Reverend WITTROCK. Thank you, Mr. Chairman.

My name is Rev. Ken Wittrock. I am testifying today on behalf of the Lutheran Council of the USA.[1]

I am aware of the 5-minute rule, and I have some anxiety about that. If my congregation ever heard that I got done in 5 minutes——

Senator McCONNELL. It is much tougher on politicians than it is pastors.

Reverend WITTROCK. The President has indicated there are some trends in Government which really should stop, and we should not let this one continue, I do not think, limiting clergy to 5 minutes.

I am a pastor of two rural parishes in northeast Nebraska. We grow corn and raise cattle and hogs. It is a small town. When I got there 6 years ago, it had a population of 470; now, it has a population of 400. And I emphasize that point of population because we are desettling rural Nebraska. And I suspect that if the numbers were looked at, we are desettling rural America.

It is frightening when we consider that in the last 40 years in the State of Nebraska—I brought some numbers; they told me you would be tough to convince—in the last 40 years, the farm population has decreased 56 percent; from 1978 to 1982, in 4 years, we lost over 5,000 farms, and it looks like this year and next year, we will lose even more, over and over again.

At current rates, over 70 percent of the farmland is held by persons over the age of 45, and farms operated by persons under age 45 now number 1,000 less than in 1974, despite the entry of new farmers in the seventies.

Between 1969 and 1982, only farms of 1,000 acres or more increased in number. All other categories of farm size decreased in number.

Senator McCONNELL. All of that under the current farm policies, too, which are open to change. If I may interject, I think there is almost nobody on this committee arguing for continuing what we are doing now. I think it is clearly not working.

Excuse me. Go ahead.

Reverend WITTROCK. There seems to be—and I am trying to speak a little bit about rural communities, as well as the farm situation—statistically, there is a direct negative correlation between farm size and quality and conditions of life in the small communities.

So, while I understand that the commitment of the committee is to move away from what has been done in the past, I urge some caution in taking a closer look at just exactly what kind of planning we are doing in adapting new kinds of agricultural policies.

This morning, we heard this free market talk, and the previous Chair was saying that he was hearing it from State to State, echoing through all of agriculture. What I hear in agriculture today is people crying for help. They are saying "Ouch." They may be saying that they want less Federal involvement in farm policy, but

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[1] See p. 925 for the prepared statement of Reverend Wittrock.

I do not think that that is a license for irresponsibility. The Government still needs to maintain a responsible level of involvement in agriculture. It is extremely important that we maintain a presence, a guiding kind of presence, at least, to help preserve this very basic and important resource for this country and for all of the world.

It is difficult to express the kind of pain that occurs not only on farms, but in small communities. And I really want to make it clear that what this committee does truly is making a choice for hundreds of thousands of people, in entire infrastructure that is dependent upon small- and medium-size agriculture.

If the committee goes to a certain political and economic philosophy, we are looking at some severe kinds of changes, very severe kinds of changes. In the midst of the difficulties that we have experienced, there have been some very personal kinds of things happening.

A Kansas study found that 7 out of the 10 Kansas counties with the highest divorce rates were rural; 9 of the top 10 counties with confirmed cases of child abuse were rural. Farmers who see no way out of their financial dilemma are committing suicide in record numbers. In Missouri, the suicide rate for farmers was higher than for any other single occupation. The 10 Kansas counties with the highest suicide rate in 1980 were rural.

The church plays an important part. We play counselor, we play mediator. We try to get people from different sides of economic and political philosophies together under specific kinds of forums so we can have some discussions. But we have found that we would like to have a little bit clearer picture.

The bishops of the American Lutheran Church and the Lutheran Church of America, all agree—and it is as hard to get all of those guys to agree to one thing as it is to get all of you guys to agree to one thing—but they agreed on this, that we call on the Congress to develop national policies that would provide an adequate supply of safe and wholesome food, at affordable prices for those able to pay, and subsidize for those without adequate resources; the development of economic policies that foster strong growth in the export market, but taking into account that we do not destabilize those nations which are beginning to increase their agricultural output—so that needs to be balanced; that there be fair prices and legal protection for farmers and farm workers; prudent and effective stewardship of land and other natural resources; equitable access to and widespread distribution of farmland and other production assets; and short-term farm debt relief that will make some funding available.

Agriculture, like politics and like economics, is not morally or theologically neutral. Conservation for church people is a way of implementing the stewardship of God's creation, as the bishops said, for not just today—we cannot mine the Earth—but for tomorrow as well, looking out for future generations.

Caring for and feeding the hungry is a biblical imperative. It is not something that we choose; it is something that we do. Supporting the people who produce our food is not only just, but I think it just makes good common sense.

Advocating for family farm agriculture is not easy in today's climate, but the communities which it fosters, the infrastructure which it grounds make preserving it critical not merely as a national treasure—but as an investment in the future of a growing and ever-hungry planet.

It is not nostalgia that prompts concern, but necessity. Policies which enable small- and medium-size producers to remain in agriculture sustain local churches, schools, hospitals and small businesses, as well as farm production units.

We have created the current condition in rural America. It is like an eroding field. It is unthinkable that we who are charged to be stewards might think of pulling away, after we have created a situation that is simply not stable at this point. Can we leave this highly erodible situation to the vagaries of change and the vicissitudes of the free market? It is our responsibility to replant, to restore, and to correct the mistakes of the past and plan a just and diversified food production system for the people of the agri-community, the Nation and the world.

Your decisions will impact all Americans, not only farmers, but all of us out there. Please consider that all of us rely on family farms for our livelihood. Thank you for your time.

Senator McConnell. Thank you. It sounds like your community is very similar to eastern Kentucky, in terms of dependence on one thing. We have one thing—we have coal. And no matter what the Government does, the coal business goes up, and the coal business goes down, and if the coal business goes down, there is nothing in a great number of eastern Kentucky counties. No amount of Government intervention, adjustment, or anything else has been able to create a coal market when it did not exist. We have seen it in my State, which is 50th in education, and which gets a great deal more money back from the Government than it pays in in terms of taxes. We really have some very similar situations in which we are totally dependent on one thing, and there is no diversity.

My concern is that all of these things have occurred under the current farm program, which has been incredibly expensive to the Government. And one of the things we are grappling with around here, and one of the questions that a lot of people ask privately, is the question of whether there is anything, really, short of massive infusion of money that we do not have, that can restore a vibrancy, in terms of numbers of people involved, to rural communities.

My State is a largely rural State. We have 150,000 people who make some or all of their income from tobacco. The typical tobacco allotment is a half-acre. That is a crop that is always under assault. Our State, both in terms of coal and tobacco, is similar in terms of its vulnerability to yours.

The big question, just in conclusion on that point, is whether we have the money here in this atmosphere to restructure that, when it seems in some ways to be flying in the face of an inevitable movement in an opposite direction.

Father Strecker.

Reverned Strecker. It seems to me, Senator, that for too long, we have been moving the furniture around, and we have come to the point where we have a systemic change, not merely a dollar change or anything of that nature. We will no longer be viable, and

I sincerely believe that we are forced to make a systemic change in the system.

Senator McCONNELL. But how do we change it—mandatory production controls?

Reverend STRECKER. I am not sure that that would even be a systemic change. I think we may be maintaining the same problems by such an approach.

I think someone has to come up with another concept.

Senator McCONNELL. Well, I was hoping maybe you had a thought there, because it is easy—and I am really not putting you down—but it is easy enough to come in here and decry the situation. I would like a suggestion, a specific suggestion, as to how you would restructure it, because that is what we have got to do here—either of you.

Reverend STRECKER. I was just going to say that I think both of us are saying the same thing. The basic thing that we are saying is justice. Justice has to come into the situation.

Senator McCONNELL. That is a concept that we could all agree upon, but what we are trying to do here is to restructure a farm bill, and I am wondering if you have some specific suggestions as to how we might do that, in order to promote the goal that you advocate.

Reverend WITTROCK. Two things, specifically—and there are people better able to elaborate on these suggestions than I. The first is target farm benefits to small- and medium-sized producers. The second is, take a look at some of the tax advantages that are offered to off-farm income individuals, which I think provide some real disincentives for agriculture. I think there is an awful lot of revenue being lost to the U.S. Government through this agricultural dodge. I know tax benefits are there to promote family farm agriculture. But they are being misused, and I think there is a real role for the Federal Government to get involved and to change them.

Senator McCONNELL. Is there—I am not familiar with—and I should be, but I do not know the details of every farm bill that has been introduced this year. I am just wondering if there is one that is before this committee that you all are promoting. There are a variety of different farm bills which have been introduced this year, all of which have been referred to this committee, and I am wondering if there is any proposal in behalf of which you are testifying.

Mr. REEVES. I think there is nothing before this committee now, but there are some proposals being worked on on the House side which are incorporating the kinds of things that Ken has suggested.

Senator McCONNELL. Senator Melcher.

Senator MELCHER. Mr. Chairman, during the course of the morning, I have taken the opportunity to read through this testimony of three or four of the panel. I gleaned from that some basic points that will obviously be incorporated in the farm bill that will come from this committee.

First of all, it is clear in the testimony of the panel—at least three out of four of you, and I think the fourth one is about the same, too—but the testimony is that first of all, the proposal to risk, almost assure lower net farm income must absolutely be rejected, because the circumstances are so acute that to describe it as an emergency really does not satisfy how serious it is.

Father **Strecker**. It is a crisis.

Senator **Melcher**. Yes, it really is a crisis. That is No. 1.

And then, No. 2, while the testimony is not explicit and giving the ray of hope of increasing, or the mechanism to increasing net farm income, it is obvious that the testimony does fit within what I believe is the determination of this committee, that some of it will be coming to a combination of removal of surplus for either humanitarian or trade expansion needs, and it is beneficial not just to us, but to whomever we trade with and whomever the humanitarian aid goes to. So I think, while the testimony may lack specificity, the testimony is very direct within the parameters of what this committee is attempting.

Senator **McConnell**. Oh, I did not mean to imply that it was not. I was just curious as to whether there was a particular proposal.

Why don't we move on to you, Mr. Reeves.

STATEMENT OF DON REEVES, FAMILY FARM CONSULTANT, CENTRAL CITY, NE, REPRESENTING INTERFAITH FOR ECONOMIC JUSTICE

Mr. **Reeves**. I am Don Reeves.[1] I am a Quaker and a grain and livestock farmer in Merrick County, NE. I am a consultant to Interfaith Action for Economic Justice, which is an association of about two dozen church agencies. I appear and speak on their behalf.

Our several agencies have a long history of involvement in farm, rural, food, and antihunger policies. And some of the basic planks in this work have been support for a widely dispersed family farm system of agriculture and the strong rural communities that are associated with that kind of agriculture; responsible resource stewardship; responsive domestic food assistance available to all people who are in need; and a significant U.S. contribution to world food security.

I want to bring the sense of urgency. Ken Wittrock and I have both been involved in the farm crisis response program, sponsored by Inter-Church Ministries in Nebraska. This is a program in which we are trying to bring emotional support, but be sure that farm families in financial and emotional stress have access to good financial counsel—we are not trying to do it all, but we are assembling the resources and making the links—and we are also trying to be sure that they have good legal counsel, because there are some crazies floating around who give them really bad advice.

Since October 1, we have had nearly 800 calls from Nebraska farm families. And this Sunday morning, as I was getting ready for church, Lloyd Wallgren, from Deshler, NE, called. Lloyd had been nearly 40 years a dairy farmer. He lived across the road from the house he was born in. He started farming right after World War II. He got a Farmers Home Administration loan. After a few years, he graduated and has been a customer of the Deshler State Bank for over 20 years. In the early seventies, he helped one son get started; in the late seventies, he helped the second son get started in farming, one in hogs, and one in crop farming.

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[1] See p. 929 for the prepared statement of Mr. Reeves.

All three operations were sold out at a single auction on Saturday. Now, the Wallgrens and their banker thought that there would be enough revenue out of this sale to pay the bank off, but there was not. The farm machinery market has declined to the point that there just were not the people there at a late April auction.

So, he called Sunday morning. He knew about the hotline program, but he was going to get this thing worked out—but it did not work. And he could not find the number, so he had heard my name, and he called me.

So, my question is somewhat rhetorical, but what do you say to a farmer who is 63 years old, who really was quite well-off 5 or 6 years ago, well enough off that he could help his sons get started farming, but now, he is stripped down to the furniture in his house, his car, and $553 a month in Social Security?

And what do you say to his banker? Because he and the banker, they are going to sit down across the desk and negotiate this thing. They will not go to bankruptcy, because that is a negative sum game for both of them. But they are going to have to work this out, and every dollar that the banker takes, he knows where it is coming from. It is coming out of a little residue that the Wallgrens have left. But they both know that any dollars that the Wallgrens cannot come up with are going to come out of the capital stock of the small State bank.

So, we come with that sense of urgency about what has to happen. But we also, I think, come with a much longer range perspective, the kinds of things that the Bishop and Ken have talked about.

And I would call to your attention—I think every member of the committee has received a copy of this "Beyond the Crisis" statement. I have extra copies here, particularly for staff members who might not have seen it, or have use for extra copies. But all the associate groups, including all the people sitting here, had a part in preparing this statement, along with some other farm groups, some conservation groups, and other public interest groups. And most of my remarks are detailed more in that statement.

Let me highlight and make specific comments about four areas of concern, and then mention three more in passing.

The first has to do with the farm policy language.

During the 1981 writing of the farm bill, the bill got pretty well along without any policy statement section in it at all. I caught Senator Zorinsky one morning and offered some amendments to the language that was in the 1977 bill, and he took them to the chairman, and by noon the same day they had been incorporated in the farm bill.

So, we are coming back, asking that Congress reaffirm its support for a family farmer, dispersed system of agriculture, and that the specific requirements for occasional reports to Congress on the status of the family farm be continued.

We would like added to that set of requirements more extensive social indicators. What is happening in rural communities; what are the implications of the farm policies that are made by Congress?

First, related to that, we would like to see some language added to the research section of the farm bill, which would study the relationship between the structure of agriculture and the social as well as economic health of rural communities.

A second area of concern has to do with the basic Commodity Programs, the income support policy. We believe that Commodity Programs should provide moderate size family farms, with the opportunity to earn a fair labor and management income from well-run farms of sufficient size to achieve most economies of scale. But from both the family farm system perspective and the budget perspective we think the programs will have to be focused and targeted.

Specifically, we have proposed an alternative that will maintain and improve basic farm income security and simultaneously reduce budget outlays. We would raise target prices, if you please, to more adequately reflect cost of production. We think that, considering the things that are happening in Nebraska, at least, that to tie the target price concept to a market indicator will continue the present disaster.

We think these target prices will need to be adjusted regularly for actual and projected costs. But we would limit the coverage of this target price to a volume of production to yield an income per family on the order of the national median income. For every producer, then, we would put that kind of cap on the amount of commodities which could be eligible for target price support.

In addition, we would exclude from eligibility producers with high nonfarm individual or corporate income. That means we would exclude quite a lot of people from eligibility on the basis of a nonfarm income test.

Then, we would cap the commodity price support loans at approximately the same level.

Now, we think of these are principles which could be applied to a variety of approaches. We have named them in terms of the present approach. But for example, if the marketing loan concept, which is getting current attention, is included in the farm bill, then you would look at a parallel kind of limitation in terms of the coverage of that program.

In our prepared testimony, there are some comments about price stability. I am going to defer to John Pender for specific comments about that.

I think it important to reemphasize the importance of tax policy. I think that tax policies may even outweigh commodity prices, both in their impact on structure of agriculture and on its profitability.

I hope that this committee has, for example, heard the record of the hog industry, from the time that hog facilities were made eligible for investment tax credit and rapid depreciation in 1975—the increase in the hog factories out there in the next 3 years, and the disaster that followed in the next 3 years—almost directly related to changes in the Tax Code.

I recognize that it is not the prerogative of this committee, but I hope the committee would send a resolution to the Finance Committee that they look specifically at the connection between tax policies and the impact on agriculture—both as to structure and as to profitability.

I want to offer just some brief comments about farm credit. I will pass over the crisis response. We from Nebraska were proud of Senator Zorinsky and his effort to bring some relief in the short range.

But looking specifically at Farmers Home Administration, we would like to see it restored to its historic role as a lender of last resort to small- and moderate-size family farms, and its aid to young farmers making their initial land purchases.

We think that Farmers Home could do these jobs at modest cost-savings from their present budget by reducing the level of Government lending and loan guarantee activity in larger, riskier loans, which often finance expansion-oriented farms, and keeping the focus on small- and moderate-sized farms.

We are skeptical of attempts to reduce the level of direct or insured loans in favor of loan guarantees. Farmers lose some protections in the move from direct loans to insured loans. We are finding that in our crisis hotline efforts.

We would like to see loans continued for farmland purchases, particularly to limited-resource borrowers. We would like to see the Limited Resource Loan Program continued and strengthened. We want to be assured that Farmers Home will dispose of its inventory over a period of several years in such a way that would give priority to beginning and moderate-size farms.

We would like to see the loan limits on the regular operating loans, and particularly the Emergency Loan Programs, reduced to the size appropriate for modest-sized operations.

I will pass over by mentioning the area of resource conservation—these gentlemen said something—but we will continue our active support for strong sodbuster and conservation reserve legislation.

And brief comment—and deferring to John Pender for detailed comments about food aid and reserves. The Interfaith Action for Economic Justice originated as a church response to world hunger, so we are concerned about the development of food-producing capability in poor countries. In that regard, we are somewhat wary of an unbridled push toward exports that do not pay attention and do not give particular care to the impact on that development process.

I again will defer to John Pender for detailed comments about Domestic Food Assistance Programs, and you may have questions for Mr. Shollenberger.

Let me close by saying that we continue to support a strong food stamp and other Federal nutritional programs.

As a personal comment, I do not think there is any excuse for anybody in the United States being hungry. I just think it is inexcusable. And as a farmer, I think it is good business, because they eat food that I grow.

Thank you for your attention.

Senator McConnell. Thanks, Mr. Reeves.

Mr. Pender, please proceed.

STATEMENT OF JOHN PENDER, AGRICULTURAL POLICY ANALYST, BREAD FOR THE WORLD, ACCOMPANIED BY BARD SHOLLENBERGER

Mr. **Pender**. Thank you, Mr. Chairman.

We appreciate this opportunity to be able to express our views on the 1985 farm bill.

My name is John Pender.[1] I am an agricultural policy analyst with Bread for the World. With me is Bard Shollenberger. He is a policy analyst on domestic hunger issues with Bread for the World.

Bread for the World is a nationwide movement of over 47,000 Christian citizens who are working for public policies to help end hunger. We believe that a fundamental goal of food and agricultural policy should be to promote a world in which all people have enough to eat. This requires food assistance programs which work well to provide food to those in need. It also requires agricultural and other policies which contribute to an adequate and reliable food supply and promote a healthy, stable, and sustainable agricultural economy.

The current crisis in Africa has made the importance of food aid abundantly clear to most people. Literally hundreds of thousands of lives can depend upon timely provision of adequate food aid. Bread for the World applauds the efforts of churches, private relief agencies, and private individuals to help.

I believe a profound awakening is occurring in our country as a result of this crisis. All across America, people are looking for ways that they can help to end this needless tragedy of hunger in a world of plenty.

The most popular song in the country today is a song called "We Are the World," which is raising millions of dollars for famine relief in Africa. Last night, I saw a television program which talked about children in the city of New York, many of whom are ghetto children, who raised $150,000 to send a planeload of grain to Ethiopia.

Americans are looking to themselves to do what they can. They are also looking to their Government to help. And the Government is responding—sometimes, not as quickly or as well as we would like, but it is responding.

We applaud Congress and the administration for enacting emergency legislation last month to assure that food and emergency supplies will continue to be provided to Africa for the remainder of this year.

We urge Congress to provide $900 million for title II aid in fiscal year 1986. The administration has requested only $650 million for this purpose—roughly half of what will be used in fiscal year 1985—and we do not see the emergency lessening such that it would justify a 50-percent cut in food aid.

Although Bread for the World supports increased food aid in fiscal year 1986, we do not subscribe to the theory that more is always better with regard to food aid. We believe that food aid should be carefully provided on the basis of need and developmental impact. Large, long-term increases in food aid may be counterproductive to small farm development in recipient countries.

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[1] See p. 945 for the prepared statement of Mr. Pender.

Bread for the World is also concerned about the problem of hunger in America. The Physicians' Task Force on Hunger in America recently reported that hunger is returning as a national epidemic in America, affecting at least 20 million people. They concluded that this resulted not only from economic dislocations, but also because programs which assist hungry people have been weakened.

Bread for the World concurs with the findings of the physicians' task force. We believe adequate and effective Federal food and nutrition programs are vital resources in the battle against hunger in America.

We urge Congress to restore Federal food and nutrition programs, including food stamps, WIC, and child nutrition programs, to levels adequate to help stop the growing problem of hunger in America.

In addition to food assistance programs, agricultural policies are very important to the situations of hungry people as well as farmers throughout the world. Grain reserve programs are particularly important. Without adequate reserves to draw upon, food shortages are inevitable when world grain production falls short of demand. When this happens, those who suffer the most are those least able to pay higher prices. In the early 1970's, many thousands of people went hungry or died after changes of government policies and a world shortfall in grain production led to grain shortages and a tripling of wheat prices.

The price boom which occurred, while helping farmers in the short run, hurt them in the long run by contributing to the overinflated expectations of the 1970's, which were a major source of the current farm crisis.

Grain policies can also have a substantial impact upon food aid. Large grain surpluses in the 1950's and 1960's contributed to a large flow of food aid, sometimes to the detriment of agricultural development in recipient countries. In the early 1970's, new policies and supply shortages led to a two-thirds reduction in food aid, when many recipient nations were facing severe shortages.

Today, as food surpluses have returned, food aid may again be seen as a means of reducing the surplus.

Bread for the World believes that food aid is not the appropriate vehicle to absorb surpluses and shortages in agricultural production. We believe that well-managed grain reserve and grain supply programs are critical, both to prevent surplus accumulation and to protect against supply shortages. Such programs would not only help to preserve the integrity of food aid and promote food security, but also to promote stability in the farm economy and conservation of agricultural resources.

To serve these objectives, Bread for the World seeks reauthorization and replenishment of the food security wheat reserve; reforms in the farmer-owned reserve which will provide for adequate but not excessive carryover stocks; and better coordination of supply management with reserve policies in a manner which promotes food security, stability in the farm economy, and conservation of resources.

The food security wheat reserve is needed to ensure that we can meet food aid needs when supplies are short. Part of this 4-million-ton reserve has been made available for famine relief in Africa. This reserve needs to be replenished so that it will continue to be available to safeguard the Food Aid Program and for emergency needs.

The farmer-owned grain reserve is needed to ensure a reliable supply of grain and to promote stability in the rural economy. While Bread for the World seeks to have this program reauthorized, we also see the need for reform in the program. In recent years, the farmer-owned reserve has been misused as an alternative to acreage control programs to raise support prices. Excessive reserve stocks were accumulated in 1981 and 1982, and then rapidly depleted by the largest acreage diversion program in history in 1983.

This approach jeopardized the security of food supplies, created havoc in the rural economy, and was enormously expensive.

Bread for the World believes a basic goal of the farmer-owned reserve should be to ensure an adequate but not excessive reserve stock in the United States. If total U.S. carryover stocks of grain fall below a minimum level necessary for food security, farmer-owned reserve incentives should be used to promote rebuilding of reserves to an adequate level.

On the other hand, if carryover stocks exceed a maximum desirable level, incentives encouraging storage in the farmer-owned reserve should be kept to a minimum. Eliminating the use of reserve incentives in this manner, adequate but not excessive reserves would be provided for.

These changes in the farmer-owned reserve program would make it more effective and less costly.

In addition to these changes in the farmer-owned reserve, Bread for the World believes that grain reserve programs should be better coordinated with supply management programs. The use of supply controls should be more predictable and better coordinated with carryover levels to provide a more stable policy environment and avoid excessive accumulation or depletion of supplies.

In addition to these policies to promote stability in the rural economy, Bread for the World supports other policies which will promote a healthy and resilient farm economy in which economic rewards and control of production and resources are broadly distributed. This includes reforms in tax policies, commodity programs, credit programs, and research and extension programs.

Bread for the World endorses the recommendations of the "Beyond the Crisis" report which was mentioned by Don Reeves, and thinks that this approach would better serve family farmers and hungry people at less cost to the Government.

Thank you for this opportunity to express our views on the important issues involved in the farm bill. We hope that our suggestions will be helpful in your efforts to enact food and agricultural policies which will help all people have enough to eat, restore and maintain prosperity in the rural economy, and ensure that our children will continue to enjoy the agricultural abundance that we have been fortunate to enjoy.

Thank you.

Senator McConnell. Thank you, Mr. Pender.

Mr. Skillen, you are next, please.

STATEMENT OF JAMES W. SKILLEN, EXECUTIVE DIRECTOR, ASSOCIATION FOR PUBLIC JUSTICE

Mr. Skillen. Thank you, Mr. Chairman.[1]

I am the director of an association of American citizens, united by the conviction that we should be seeking to promote justice for all in the public arena, rather than approaching our legislators simply as separate interest groups. Beyond our occupational and other interests, we want to promote a public interest in justice.

Our members happen to be farmers, teachers, pastors, parents, lawyers, doctors, merchants, and people from just about every other occupation and profession.

We do not claim to have arrived at final answers about what constitutes justice in areas as complex as food and agricultural policy, but we are working to try to understand the kinds of long range policies that will best protect and promote healthy interrelationships among farmers and consumers, rural and urban sectors of society, domestic and international markets, the diverse means of food production, and our ecological environment.

In your work on this 1985 farm bill to promote agricultural recovery, we would urge that you not overlook what might be done through the little-noticed, little-mentioned Farmland Protection Policy Act that was first introduced in the 1981 farm bill, and to see that there are ways that it can be strengthened, both for the purposes of a symbol to the States and counties and local communities around the country, but also as an important area of experimental research and activity that the Federal Government itself can conduct.

In the conclusion of my written testimony, I make specific recommendations, some of which are in this document that was already referred to—"Beyond Crisis"—a group of which we have been a part. I list some specific recommendations for strengthening that Farmland Protection Policy Act, and for the sake of time, will not read those. But if there are questions and if in the future we could be of help, along with other organizations like the American Farmland Trust, which have helped to develop that, we would be happy to do so.

For purposes of brief summary and conclusion here, I would like to stress the spirit of our concern that undergirds our specific recommendations, which are parallel to some that you have already heard from. And it is especially our concern that we look for the long-range restructuring questions in the middle of the crisis now.

With farmland prices down, with many farmers going out of business, with the Federal Government pinched for cash, and with great surpluses on hand, few think it is timely for you to concern yourselves with the loss of farmland, or to waste money we do not seem to have on soil conservation. But now is precisely the time to get serious about the future.

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[1] See. p. 955 for the prepared statement of Mr. Skillen.

Now, with surpluses abounding, is when we ought to be fixing fast the provisions against any further sodbusting of marginal lands, so that when greater production is needed in the future, we will not foolishly push farmers into destructive practices.

Now, while we still have much prime farmland in our hands, it is time to push soil and water conservation, not a decade or two from now when we begin to have trouble distinguishing what used to be prime land from what are now marginal lands.

Now, as we see for the first time in decades more people moving out of, rather than into, urban areas, is when States and localities, with Federal Government encouragement, should be trying to zone farmland, for example, in anticipation of the day when farmland is being sold off to nonagricultural uses at an even greater rate than today.

Now is when we should be trying to stop the loss of irreplaceable water, soil and farmland. A decade or two from now, the cost of conservation will be 10, or 20, or 100 times as great.

Now is the time to change tax and investment policies to stop the encouragement of wasteful and destructive uses of water, land, plants, and animals.

Now is the time to cancel the encouragements given to the kinds of concentration and specialization in agriculture that make it increasingly impossible for the average-size farm to compete with the megafarm and the super corporation especially since the typical family farm, as evidence shows, is just as efficient and frequently even more stewardly than the giant enterprise.

It is in the context of this concern in which we are working that I make the specific recommendations on the Farmland Protection Policy Act and hope that the Senate as well as the House can give serious attention to that.

Thank you.

Senator McConnell. Thank you, Mr. Skillen.

Mr. Delaney, you may proceed.

STATEMENT OF EDWARD N. DELANEY, PRESIDENT, NATIONAL TAX EQUALITY ASSOCIATION

Mr. Delaney. Thank you, Senator.

It is an honor to be able to wrap up today for this fine panel. What I am going to do is, instead of reading the statement, I will highlight a few points.[1]

The National Tax Equality Association is an association of about 1,500 businesses, and we are primarily concerned with tax reform. Any concern with tax policy has a correlating concern about budget policy. So we are very concerned about deficit reduction.

We have about 500 firms in the association that are involved in the agribusiness sector. We also have about 200 rural banks in the association. So we have a natural interest in ag policy.

I want to thank the committee staff and Senator Wilson for allowing us to present our views on these issues today.

We believe that, as a long-range policy, a gradual move to market-oriented agricultural policy is important and positive. Continued Government attempts at fine-tuning the farm economy have failed miserably in protecting the family farm and establishing a decent price for the farmer.

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[1] See p. 958 for the prepared statement of Mr. Delaney.

A gradual move into the market economy, we believe, will allow the American farmer and the family farmer to compete on a worldwide basis.

When one considers that price support payments ballooned from about $3 billion in 1980 to $20 billion in 1983, and that total outlays for the agricultural budget ballooned to $23 billion, it is easy to understand that we need some revision of these policies.

One of the great difficulties, of course, is that a large degree of the price support payments, and a large degree of other benefits associated with agricultural policy are going not to the family farm or the small farm, but to very large farms. Forty percent of farm price support payments this year will go to the largest ten percent of all farms, and these are farms with an average income of $84,000. Contemplating a $16 billion budget, with that amount of money going to large farms that may not necessarily need the assistance is practically ridiculous. A market-oriented approach will make those necessary reforms.

We support Chairman Helms' legislation. It is a good starting point. It is a gradual move to a market-oriented policy. And we also support the budget compromise put together by the White House and GOP leadership here this week.

The administration originally——

Senator McCONNELL. We get to deal with that "hot potato" this afternoon.

Mr. DELANEY. That is right. The administration originally proposed to cut $16 billion over 3 years for the price support budget. The compromise is at about $8 billion, over 3 years. We feel that is a positive policy and a reasonable budget compromise to accomplish the goals of a fair program and a program, hopefully, that the committee will target toward the family farm, those dollars that are targeted for assistance.

A couple of things on the budget proposal that National Tax Equality supports. Secretary Block has indicated that the new budget package, this compromise package, would allow for six changes in the administration's farm bill. It would allow, No. 1, a more gradual phasedown of target prices; No. 2, a gradual reduction in individual payment limitations; it would allow a continuation of the FmHA Direct Lending Program, and a more gradual phaseout of subsidies for the Federal Crop Insurance Corporation. Also, the compromise package would allow for less severe cuts in the Soil Conservation Programs.

The greatest benefit of the budget package, and really, the most positive policy that members of this committee and Members of Congress generally can advocate, is $54 billion in budget cuts this next year.

I would like to add to my statement for the record items provided by Senator Armstrong that analyze the effect of the budget cuts on interest rates. They surveyed top economists and found that if we can get $54 billion off the deficit next year, we can look forward to about a 1.5-percent reduction in interest rates.

Senator McCONNELL. The single most important thing we do for the American farmer.

Mr. DELANEY. I think so.

Senator McCONNELL. The single most important thing we could do—if the financial markets react in that way to a deficit reduction package.

Mr. DELANEY. And it is especially true for the distressed farm, the family farmer that is so interest-rate sensitive.

Senator Armstrong did an analysis, and broke down into dollar amounts the benefits of that interest rate cut, and that is the information I would like to have added to my testimony.

I want to touch on another area that is not included in detail in our statement, but that a number of individuals on this panel have talked about; tax policy. This committee certainly should get involved in tax policy. It is an integral factor in agricultural policy and has great influence.

There is no question that the tax incentives provided in 1981 are being used as abusive shelters, or the result is they are abusive tax shelters, and that should be examined. I think that is being done, both in the Finance and the Ways and Means Committees.

But there is a warning that I would like to give to members of the committee. Tax reform is generally a very attractive concept. There are a couple of reform proposals on a roll now—the Bradley-Gephardt and Kemp-Kasten are popular proposals, and of course, the Treasury proposal.

Our association, as far as business taxation, our ideas of tax reform are far different from any of these proposals. These proposals—Treasury would be the worst in this regard—have potential for very negative impact on capital formation and the business economy, generally.

As far as the farm economy, the Treasury proposal would be disastrous for farmers, and this is the area where I think this committee should investigate and provide some information to the Senate Finance Committee.

A recent study done by Wharton, released this week, shows that the Treasury tax reform plan would raise production costs for farmers and lower their prices, leading to a reduction in net income of about $22 billion from 1986 to 1993. The cost of capital would be raised to farmers as well as their average tax rate. Wharton economist, John Ermenchuk, did the study, and I would recommend to members and the committee staff, that they get ahold of and take a look at this study.

Ermenchuk outlines that the most immediate effect of the plan would be to increase the cost of capital to agriculture by about 16 percent. In dollar figures, it means about a $15 billion rise in production costs over an 8-year period. It would mean about a $9 billion drop in farm production.

Other specifics in the Treasury tax reform plan that are especially harmful to farmers include elimination of investment tax credit and ACRS provisions. There is certainly room for reform and examination of those provisions as they are applied to the farm economy and tightening up the code, but sweeping reform as outlined by Treasury would be damaging.

The Wharton study——

Senator McCONNELL. Mr. Delaney, excuse me, but are those items covered in your prepared testimony?

Mr. DELANEY. No, those are not. I would be happy to prepare something——

Senator McCONNELL. All right. We are going to have to wrap it up here pretty quickly. If you could wrap it up, I would really appreciate it, because I am running late for another meeting.

Mr. DELANEY. The tax reform policy that the National Tax Equality Association advocates is encompassed in legislation introduced by Senator DeConcini, which would establish a 19-percent tax on businesses, with very limited deductions for capital investment. When you get that low marginal rate, you do not need the incentives, and you will not have the distortion in the markets. That would be a very favorable policy for the American farmer and for agribusiness, generally.

Thank you.

Senator McCONNELL. Thank you.

[The following information was furnished by Mr. Delaney:]

SENATE REPUBLICAN LEADERSHIP PACKAGE

[Savings in billions of dollars]

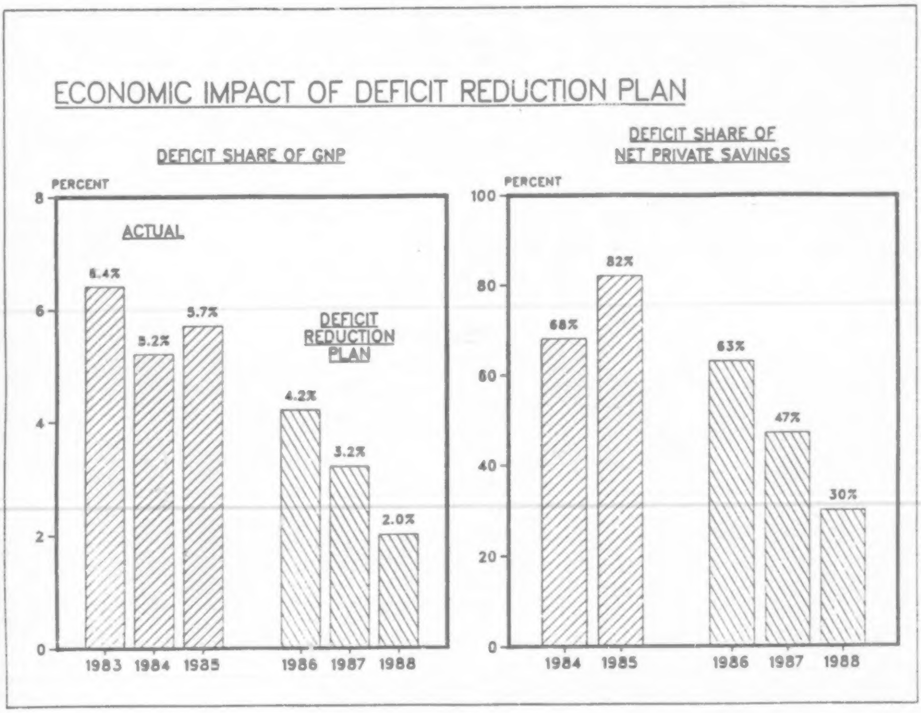
Category	Fiscal year—		
	1986	1987	1988
Freeze COLA's on entitlements	−9.4	−12.9	−13.3
Medicare and Medicaid provider freezes	−4.2	−6.3	−8.7
Discretionary appropriations programs budget authority freeze	−3.4	−5.5	−6.7
Congressionally appropriated entitlements budget authority freeze	−.2	−.2	−.2
Discretionary loan programs loan level freeze	−.3	−.4	−.6
Discretionary trust fund programs obligations freeze	−.5	−1.1	−1.4
Defense budget authority freeze	−20.2	−35.4	−51.1
Totals (outlay savings)	−38.2	−61.8	−82.0

Note: Freeze (across-the-board) $38.2 billion outlay savings in fiscal year 1986. "Entitlements" means Social Security, means-tested programs, veterans benefits, other COLA's including civilian pay raise. "Medicare/Medicaid." "Discretionary appropriations." "Congressionally-appropriated entitlements" means social service block grants, handicapped and rehabilitation services, foster care and adoption assistance, Women Infant Children [WIC] Feeding Program. "Discretionary loan programs" means subsidized agriculture credit, rural housing, rural development, Export-Import Bank, Rural Electrification Administration, Small Business Administration. "Discretionary trust fund programs" means airport and airway, highway trust fund, administrative expenses for Social Security, SSI, Medicare. "Defense."

[In billions of dollars]

Defense and Social Security savings:	
Fiscal year:	
1986	−26.1
1987	−43.6
1988	−59.5
Nondefense discretionary spending (August 1984 CBO baseline):	
Fiscal year:	
1986	171
1987	181
1988	190

Note: 10 percent across-the-board cut, fiscal year 1986, $17.1 billion; 15 percent across-the-board cut, fiscal year 1986, $25.6 billion.



ECONOMIC IMPACT OF DEFICIT REDUCTION PLAN

REFORM FARM SUBSIDY PROGRAM

[In millions]

	1986		1987		1988		1986–88	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
Baseline	$11,216	$11,111	$13,403	$13,287	$13,512	$13,384	$38,131	$37,782
Policy change	–1,000	–1,000	–2,100	–2,100	–4,900	–4,900	–8,000	–8,000

Farm program costs are too high.

The 1981 farm program now in place was the most expensive in history—$53 billion over four years compared to original estimates of $10 billion—and produced the worst results: virtual depression conditions in much of the U.S. agriculture.

This $53 billion cost exceeds the cumulative cost of farm programs for the 18 years prior to 1981.

If this current program remains unchanged over the next four years (1986–89), baseline costs will be even higher—$58 billion.

The modest savings target established by the deficit reduction plan would still leave farm program spending at $10 billion per year—more than has ever been spent for these programs before 1982. A wisely structured, reformed farm program can restore health to U.S. agriculture and remain under this annual ceiling over the next three years.

Broad committee flexibility to fashion a new, workable farm program.

The budget plan only establishes a savings target and aggregate spending ceilings to hold costs to the proposed level—a wide variety of options are available to the Agriculture Committee: Eliminate paid land diversions; link price and income support levels more closely to market prices on a phased basis; limit the amount of payments and loans given to each farmer; and avoid instituting new subsidies and programs.

Such reforms would: Create a smooth transition to a more market-oriented agricultural sector; help end the incredible duplication of subsidies that distort agricultural markets; and permit better targeting of subsidies which are currently distributed in a scatter-shot fashion, thereby demonstrating concern for the family farmer.

Current programs are very costly to both taxpayers and consumers and need changes.

They promote duplicative subsidies: 1) to encourage production; 2) to cut excess production; and 3) to cut export prices artificially raised by the first two actions.

The largest farms obtain the largest benefits. For example, the largest 9.4% of wheat farmers received 42% of deficiency payments in 1983.

Markets are distorted. For example: 10% of milk is bought by the Federal government, costing taxpayers $2 billion/year, so U.S. consumers can pay over double the world price for dairy products. High wheat price supports prop up world market prices and reduce the cost of unfair dumping practices pursued by many foreign governments.

FARM CREDIT REFORM

[In millions]

	1986	1987	1988	1986–88
Baseline outlays	$4,368	$4,271	$4,476	$13,115
Additional receipts	−2,753	−2,998	−3,495	−9,246

FARM CREDIT REFORM IS IMPERATIVE

Between 1975 and 1985, the Farmers Home Administration (FmHA) issued $50 billion in subsidized operating, ownership, dissaster and economic emergency credit. But this enormous debt accumulation in conjunction with the adverse effects of other Federal policies has only succeeded in swamping farm balance sheets with debt that cannot be serviced.

Current delinquency rates for major farm credit programs are as follows:

	Percent of borrowers delinquent
Ownership	20
Operating	31
Disaster	38
Economic emergency	43

This indiscriminate credit outlay in highly unfair—to both regular FmHA borrowers who cannot pay it back and producers who must pay commerical and PCA rates and compete in depressed agricultural markets with FmHA subsidized producers.

Because subsidized FmHA credit requires rejection by commercial or PCA lenders, the latter are increasingly "dumping" these problem loans on the taxpayers. 1985 direct operating credit may total $3.0 billion compared to $848 million in 1981. To date, 40% are new FmHA borrowers—indicating that commercial lenders have sought to protect existing loans by shifting more weak farm debt to the FmHA.

PROPOSED 5-YEAR CONVERSION TO GUARANTEED CREDIT

Operating and Ownership loans would be combined into a single program and phased out as shown below. A rising level of guaranteed credit would maintain a $3 billion per year program

[In billions of dollars]

	1986	1987	1988	1989	1990
Direct loans	2.0	1.5	1.0	0.5	
Guarantees	1.0	1.5	2.0	2.5	3.0

Crop disaster loans would be eliminated if Federal all-risk crop insurance is available.

A 2% origination fee would be charged on all guaranteed loans to partially cover losses.

Amount of each loan backed by Federal guarantee would phase down from 95% in the first year, 90% in the second and 85% thereafter to place lending on a more sound commercial basis.

FARM CROP INSURANCE PROGRAM REFORMS

[In millions of dollars]

	1986		1987		1988		1986-88	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
Baseline	370	361	391	381	410	400	1,171	1,142
Policy change	−100	−100	−190	−190	−300	−300	−590	−590

All risk crop insurance is offered directly by Federal corporation or via reinsuring private carriers. This year, $8.6 billion in crop insurance will be in force. The Federal government subsidizes 100% of operating costs and 30% of premium costs for both direct and reinsured policies.

The goal of the Federal Crop Insurance program—universal availability of low-cost crop insurance—has largely been met. Today, all-risk crop insurance is available in over 3,000 counties, and within a year or two, all Federal crop insurance will be written by private reinsured carriers.

But the U.S. Treasury still subsidizes 100% of operating costs (sales, claims processing, etc.) and 30% of premium costs. In 1986, these subsidies would amount to $209 million and $228 million respectively.

The proposed reforms would gradually phase-out both of these subsidies over the next five years, as follows:

[In millions]

	1986 current base subsidy	Subsidy phase-out plans				
		1986	1987	1988	1989	1990
Operating subsidy	$173	$143	$110	$61	$37	$0
Premium subsidy	188	118	81	39	20	0
Total subsidy	361	261	191	100	57	0

Given the level of maturity and financial stability already achieved by the industry, this gradual, planned withdrawal of inappropriate rate schedules will not prevent expansion and growth of needed private insurance service in U.S. agriculture.

Likely premium increases would be modest. Current average rates of $4.00 per acre would not rise above $6.00 per acre before 1989.

Senator McCONNELL. I want to thank all of you for coming. I am extremely interested in what you had to say, and it will be considered, because we are going to be sitting down to begin to mark up the farm bill very soon.

This hearing is adjourned.

[Whereupon, at 1:20 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

APRIL 1 HEARING—RICE ISSUES

Statement of Hon. Edward Zorinsky, U.S. Senator From Nebraska

Mr. Chairman, rice production is important in three States represented on the committee—Arkansas, Mississippi, and California. Rice is also produced in Louisiana, Texas, and Missouri. Rice produced in these States comprises, in some years, one-quarter of the world's rice exports.

In the four Southern States—Arkansas, Louisiana, Mississippi, and Texas—rice is a major commodity and contributes 10 percent of the total value of agricultural production in those States.

Rice producers traditionally participate in the programs offered by the Department of Agriculture. The program for the 1985 crop includes a 20 percent Acreage Reduction Program and a 15 percent paid Land Diversion Program. The paid land diversion rate is $3.50 per hundredweight. For the 1984 and 1985 crops of rice, the target price is $11.90 per hundredweight and the loan rate is $8 per hundredweight.

The administration's farm bill—S. 501—would establish separate loan rates for different types of rice. The basic loan rate for each crop of rice would be set at 75 percent of the national average market price received by producers for a specific type of rice during the marketing years for the three crops immediately preceding the 1986 and subsequent crops. For the 1986 crop, the loan rate would be about $6.37 per hundredweight, according to the Department of Agriculture.

Under the administration bill, rice producers would experience a steep reduction in target price protection. For the 1986 crop, the target price would be about $8.50 per hundredweight, according to the Department of Agriculture.

Chairman Helms has introduced a farm bill—S. 616—that provides a Rice Price Support and Acreage Reduction Program. The bill, like the administration's bill, established separate programs for different types of rice. However, S. 616 provides for only two types of rice—long grain and, short and medium grain rice.

The loan rate, called the market intervention rate, would be set by the Secretary of Agriculture at between 75 and 85 percent of the average price received by farmers for rice during the preceding 5 years—with the high and low annual prices excluded from the calculation.

The target price under S. 616 would be set by the Secretary at between 110 and 125 percent of the loan rate.

Rice farmers, like other farmers, face a multitude of problems. They must cope with high interest rates and rising production costs. In addition, farmers have had to contend with constantly changing programs that make long range planning impossible.

I hope this hearing will assist Congress in establishing a sound and workable rice policy that farmers will be able to rely on in the coming years.

I look forward to reviewing the testimony of today's witnesses.

Statement of Chip Morgan, Executive Vice President, Delta Council, Stoneville, MS

Thank you, Mr. Chairman for allowing us to appear before you today. My name is Chip Morgan, executive vice president of Delta Council, a producer organization representing cotton, soybean, rice, and farm-raised catfish producers in the Mississippi Delta. I am appearing before you today in order to represent the views of rice producers in our area, where more than 200,000 acres of rice was produced last year. Rice is a relatively new crop in our area and during the last decade, many of our growers have found that their land is more adapted to the production of rice, rather than our alternative crops. However, rice production requires almost twice the investment in land, buildings, machinery and equipment when compared to other crops grown in our area. Mississippi rice producers have been suffering under the stress of attempting to build a very capital intensive production system during the latter part of the seventies during a period when debt to asset ratios of farms were declining due to rampant inflation, and the economic rationale for lenders and farmers was to expand and roll over the debt. This same economic rationale during the seventies which was driven by rapidly expanding exports, accelerating inflation and rising land values reversed direction in the 1980's and agriculture commodities, such as rice, which relied so heavily on export potential have been staggered by worldwide recession, weakening international markets, the strong-dollar monetary policy of the U.S. Government, and less than aggressive trading practices by our Government when competing with underdeveloped countries such as Thailand.

Mr. Chairman, there is no more classic example of our problem in American Agriculture than that which is illustrated by the current status of rice producers in this country. Although U.S. rice production represents only a fraction of the world rice production, we have traditionally had a strong presence in the world rice trade. In recent years, however, our position in export markets has reduced approximately 50 percent while our major competitors, such as Thailand, have almost doubled their share of export markets.

This decline in U.S. exports of rice is absolutely not traced back to any inefficiencies or waste on a farm in Louisiana, Arkansas, California, Mississippi or Texas, but instead, the blame for the disastrously low levels of farm income on rice farms can be directly traced to our Government's inability to meet the challenges of our foreign competitors in the world market-place. In recent years, we have seen our foreign competitors design "government-to-government" contracts as trading instruments to preempt the export of U.S. rice to our traditional markets in the Mid East, Western Europe, and South Africa. The status of American rice producers offers a good illustration of a sector of the American farm economy which has been victimized by an environment consisting of global economic recession, a deflationary domestic economy, and a U.S. trade policy which continues to allow sophisticated import restrictions of foreign governments, U.S. defense policy, national security interest, and other foreign relation matters to interfere with the competitive position of U.S. rice in the world marketplace. I support this statement with the recent example when the administration refused GSM-102 Export Credit Guarantees to Nigeria when that African Nation, which is one of the largest rice consuming nations in the world, failed to sign an international monetary fund (IMF) agreement being supported by the U.S. Government. Let me assure you gentlemen, that rice producers throughout this country made an urgent appeal to the administration to seize on the opportunity to utilize this export credit guarantee in order to maintain this vital market for U.S. rice; however, this was another case when a major decision on the part of our Government which could have had a positive affect on the income picture of U.S. rice producers was made without the appeal of desparate farmers being heard. We did not deny Nigeria of its rice needs by withdrawing their credit guarantees, because our major foreign competitor, Thailand, quickly filled the order through a government-to-government agreement; in addition, our Government moved another burdensome load of U.S. rice production into our surplus of inventories to further depress commodity prices on the very producers that are already suffering from U.S. fiscal and foreign policies that have contributed toward the hugest farm income problem that this country has experienced during my lifetime.

In view of this backdrop retorting the macroeconomic problems which are facing American agriculture today, we are grateful to the Senate Agriculture Committee for attempting to draft major farm legislation which will provide some degree of stability in American farming operations. Our current farm programs have been unduly criticized by the administration and many leaders in Congress as having been "very unsuccessful." We would like to challenge these critics to show us that the Agricultural Act of 1981 is the reason that we are experiencing disastrously low levels of farm income and unprecedented levels of farm debt. By contrast, no rice producer in our area wants to derive his income from a farm program; however, during at least 2 years of the past 4 years, the majority of rice producers in our area would have experienced a negative farm income had it not been for the provisions establishing a nonrecourse CCC loan accompanied by the limited income protection features of a target price mechanism in the Agricultural Act of 1981.

Any farmer would prefer to gain his income from the marketplace, however, we have absolutely no apology to offer to the critics of the Agricultural Act of 1981, since it is our belief that this program operation exactly as it was designed. Actually, this program provided the only real farm income—not to be confused with profits—during a period when the U.S. share in world agricultural trade declined at a level almost consistent with the rising farm program cost. The annual cost of maintaining U.S. agricultural production at a level which has allowed U.S. defense policy, national security interests, and other foreign relation matters to utilize agriculture as a bargaining tool, amounts to approximately one-half percent of the entire Federal budget, and only 1½ percent of the highly publicized Federal deficit.

Delta council would like to urge the Senate Agriculture Committee to take the leadership in pointing out the deficiencies of our agricultural export programs which have simply not been utilized to the benefit of American agriculture. Also, we would ask you to continue to support a Commodity Credit Corporation Loan Program and target price mechanisms. The CCC loan is essential to orderly marketing for farmers, and provisions for some type of income protection is absolutely essential, during those periods when factors totally unrelated to the individual farming operation cause market prices to sustain at disastrously low levels.

In closing, we should state that it is our belief that no farm program that could be designed by the Senate Agriculture Committee will be successful in the absence of an American agriculture policy that includes a commitment by our Government to move the U.S. agricultural products from the foreign relations bargaining table into the competitive world market of agricultural trade.

Thank you, gentlemen.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chairman: I am David Senter, National Director of the American Agriculture Movement, Inc. Thank you for the opportunity to appear.

As this Committee considers a new rice program you should be aware that hardly any sector is happy with current legislation, and that the administration's proposal does not represent an improvement.

Our number one objective is to insure a reasonable priced, dependable supply of food and fiber to the American consumer. For this goal to be met and maintained we must have a profitable production sector first. The importation of rice into the United States and subsidized sales which take our market—at the expense of American farmers—does not represent good judgment. The continued erosion of our rice industry in the name of lower cost to consumers can only result in higher, more volatile food costs over the long term. The market-oriented philosophy we've been moving toward has caused an unnecessary amount of farm failures, the depletion of water and soil resources, excessive budget outlays, and the destruction of many agribusiness and rural communities. We find ourselves exporting our equity in land, equipment and natural resources in the form of cheap rice.

A new program cannot be developed in a vacuum. We must recognize the relationship of all commodities and they all should be treated equally. We should avoid continuing the hodge podge of commodity programs we now have which causes one to benefit at the expense of the others with none being served in the long term. Toward that end, the American Agriculture Movement has proposed a program including loan rate at or near the cost of production, say at 70 percent of parity with a 36 month term, mandatory supply management, a true reserve, disallowance of imports below our cost of production, utilization of export subsidies, i.e., and limitation of $20,000.00 as a tax write off for non-farm income.

I am submitting a copy of this AAM proposal for your consideration. Thank you.

AMERICAN AGRICULTURE MOVEMENT, INC., 1985 FARM BILL PROPOSAL

The American Agriculture Movement, Inc., in convention and meetings held across the country assembled and proposed the following to be included in the 1985 farm bill.

The 1985 farm bill must include:

Production controls.—Establish a mandatory program through referendum by farm operators with quantity controls (bushels, bales, pounds, etc.) in addition to a 10 percent acreage reduction. Production levels should be established according to inventory stocks.

Loan rates.—Loan rates set at not less than 70 percent of parity (the average cost of production) on all storable agriculture commodities including milk. Minimum non recourse loan term shall be 36 months with loan rates increasing 2 percent annually through 1996 and remain at 90 percent parity thereafter; storage rates for on-farm storage and commercial storage shall be the same.

Proposed annual loan rate increase

Year:	*Parity (percent)*
1986	70
1987	72
1988	74
1989	76
1990	78
1991	80
1992	82
1993	84
1994	86
1995	88
1996	90
1997	90
1998	90
1999	90

Food reserve.—A national food reserve shall be established (to guard against food shortage) and released only when a food shortage has been declared by the House and Senate agriculture committees. Inventory stocks of each commodity shall be set by the Ag secretary and shall be managed by the Commodity Credit Corporation (CCC).

Imports.—All agricultural products (livestock, poultry, dairy, fish, vegetables, etc. . .) shall be labeled as to the country of origin. Any processed or co-mingled product shall be labeled as such. All imported products shall have equal inspections and meet same standards as domestically produced products. Products containing residues of U.S. banned chemicals shall not be allowed to be imported into the United States. Red meat imports shall be controlled by a price trigger and reflect a parity level consistant with other ag commodities and no ag product shall be allowed entry at less than the domestic price as provided for in the GATT (General Agreement on Tarriffs and Trades) anti-dumping agreements.

Exports.—The United States should use subsidies to maintain our market share in world trade and this device should include export PIK, adequate credit, interest-buy-down, etc. U.S. subsidies should match those used by foreign governments hidden or direct.

Farm tax loopholes.—There should be a maximum write-off of $20,000 for non-farm income through tax-loss farming.

Soil conservation.—The existing soil conservation programs shall be continued and expanded in problem areas.

Farm credit (FmHA).—Reschedule farm debt on a case-by-case basis to allow the operation to meet cash-flow requirements necessary to continue operation. Terms of the loan (20 year maximum) shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people! Three of which must be farm operators, elected by their peers which will in turn appoint two others, one from the financial community, and one holding a public office. New applications must be accepted for consideration and any economic emergency (EE), emergency disaster (EM), or operating (OL) loans not acted upon within 60 days must be automatically approved.

ASCS.—County ASCS committees shall make all decisions relating to soil and water conservation practices, including cover crops, haying and grazing dates, etc. The ASCS community committee must be continued with no fewer committees than in place in 1980.

STATEMENT OF HUGH ARANT, PRESIDENT, MISSISSIPPI FARM BUREAU FEDERATION, AND MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. I serve as President of the Mississippi Farm Bureau Federation and as a member of the Board of Directors of the American Farm Bureau Federation. I appreciate the opportunity to appear before the Senate Agriculture Committee regarding Farm Bureau's position on farm programs for rice and our proposals for legislative changes under the 1985 Farm Bill.

Farm Bureau policy is debated, amended and revised by voting delegates from each of our member states. At our 66th Annual Meeting in January, our delegates adopted policies regarding farm programs in general and policies specific to rice programs. Our general farm program policy states:

We support a farm bill which will:

(1) Maximize long-term opportunities for profit in agriculture;

(2) Reduce existing incentives for overproduction at home and abroad;

(3) Ensure price competitiveness for U.S. farm products in world markets;

(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;

(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;

(6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;

(7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

(8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

(9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others.

The short-term outlook for the rice producers is bleak. The U.S. rice industry is carrying high stock levels, prices are at the loan level, exports are down, and domestic consumption is flat. Domestic rice producers are facing competition in world markets from foreign nations, some of which have subsidized production and devalued their currencies. The strength of the U.S. dollar has hindered exports by driving prices up in the world market and giving these competing producers an additional advantage.

Changes in our farm policies can contribute to an improved outlook for rice producers. Farm policy, however, must work in concert with sound trade, monetary and fiscal policies. Farm programs must adjust to the existing market and offer an opportunity for improved conditions while effecting a transition to a market responsive agricultural system.

As a result, Farm Bureau has developed a legislative proposal for the 1985 Farm Bill which is market responsive and fiscally responsible. We believe that by tying loan and target price levels to an average of market prices, the signals that producers receive when making production decisions will be founded in market reality, and not in political expediency.

I would like to offer more detail to the Committee on the provisions of our proposal that most directly affect rice producers.

Loan rates.—We support loan rates that are tied to a 3-5 year average of market prices for wheat, feed grains, rice and soybeans. We would set the loan rate at 75 percent of a five year average of domestic prices excluding the high and low valued years. To avoid wide fluctuations in loan rates, however, we propose that the rate be adjusted by no more than 10 percent in any year including the first year of the program.

We believe that a loan rate set in this manner will signal to our international competition that we will not provide them with long-term price protection. Instead of inflexible loan rates which have allowed foreign governments to expand production based on support levels that reduced their risks in the market, we will signal to the world that we will compete with them in a wider range of prices. This will make their domestic programs more costly and reduce their incentive to continue heavily subsidized programs.

Target prices.—Farm Bureau supports continued use of deficiency payments as an income supplement to producers of the crops that currently have deficiency payments in their programs such as rice. We recommend freezing target prices for 1986 at the 1985 levels. In 1987 and thereafter target price would be set at 110 percent of the five year average used to determine the loan rate. Adjustments to target price levels, however, would be limited to 5 percent in any year. We also support a $50,000 payment limitation that would apply to deficiency payments only.

This target price system will allow producers time to adjust to a more market responsive farm program while maintaining income levels for program participants. Necessary adjustments could occur gradually while attempts to expand exports and address the issues of international market access and subsidy practices can be confronted.

Export market expansion.—We believe that the area in which substantial improvement can be realized in agricultural profitability lies in the area of exports.

We therefore have placed great emphasis on the need for a strong trade title in the 1985 Farm Bill.

Two traditional ways of enhancing exports have been through the judicious use of CCC export credits and the PL 480 or Food for Peace Program. These programs should be continued and improved. In view of the need for food, which has been made worse by the African famine situation, and the potential for economic development followed by better cash market opportunities, I believe that a much stronger PL 480 Program is currently justified.

Regarding CCC export credits, it is regrettable that the CCC Credit Revolving Fund, which was part of the 1981 Farm Bill, was never funded and activated. There are still valid reasons for incorporating the Revolving Fund in the 1985 Farm Bill with funding made available to make it an effective export tool.

An intermediate CCC Export Credit Program is needed to take care of export credit needs for terms of 3-7 years as provided for in the Agricultural Trade Act of 1978. This legislation should be more fully utilized.

The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not harm farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt agricultural commodities and products from the cargo preference law.

There may be some barter opportunities with some countries that need food and have oil or other materials or commodities that we need. We should not ignore any such opportunities, but rather should seek ways to gain exports where such possibilities exist.

Regarding trade negotiations, we must give our trade negotiators the tools they need and our strong support to gain better market access and to resolve outstanding unfair trade practices such as export subsidies, which have eroded U.S. overseas' markets. In this respect, we would support what might be called a "bonus" export program.

Under such a program, "bonus" tonnage of farm commodities and products would be made available from CCC owned commodities to lower U.S. export prices to offset the advantage of competing countries which subsidize their exports.

Acreage reduction programs.—We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. For rice, we recommend that the Secretary be required to call for an acreage reduction program when carryover is projected to exceed normal supply by more than 15 percent. Current normal carryover is calculated to be 25 million hundredweight. The ARP programs should be large enough to assure a reduction in carryover supplies. Increased efforts to expand foreign markets under the trade title of our proposal and greater market competitiveness assured by flexible price and income support programs will result in acreage reduction programs used only to correct temporary imbalances, not as annual programs.

Conservation.—We are concerned that farm programs have provided incentives to plow up fragile lands. Our policy states, "We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Any producer that brings such land under cultivation should be ineligible for any federal incentive payments for any crop in his entire farming operation."

We also support implementation of a conservation reserve program which offers producers contracts of seven to fifteen years under which erosion-prone cropland would be converted to less intensive uses such as pasture, permanent grass, legumes or non-crop bearing trees.

The policy that could best offer prosperity to U.S. agriculture would be a commitment to fiscal responsibility and reducing overall federal spending in order to get interest rates down, currency exchange rates in line and exports back into the world market. We therefore continue to support a freeze on government spending at 1985 levels.

We believe that our proposal will benefit the rice industry as it provides the opportunity for profit to all of agriculture. The features outline above allow us to move toward market orientation, provide continued assistance in the form of target prices, and expand export markets. Only in this way can we return agriculture to a healthy and balanced condition.

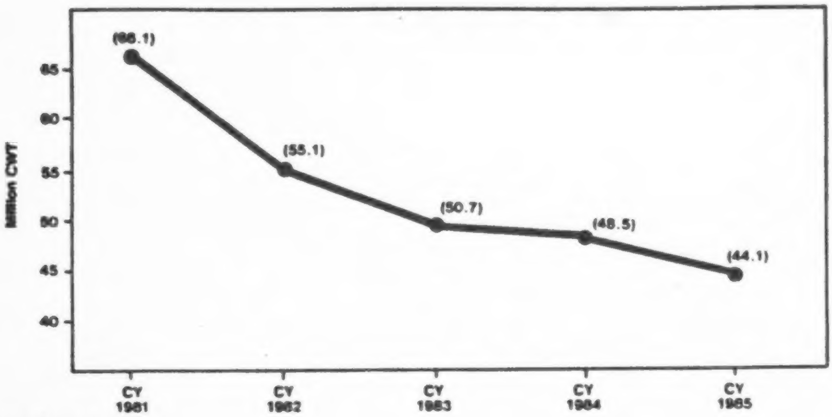
Farm Bureau will work closely with the Senate Agriculture Committee in developing a sound and fiscally responsible farm bill. I would be happy to respond to any questions.

STATEMENT OF R.E. MCCANN, JR., PRESIDENT, THE RICE MILLERS' ASSOCIATION

Mr. Chairman: My name is R.E. McCann, Jr. I am president of The Rice Millers' Association [RMA]. Accompanying me is Mr. J. Stephen Gabbert, executive vice president and chief executive officer of RMA. Established in 1899, the RMA represents independent rice milling firms and farmer-owned cooperative rice mills, with facilities in Arkansas, California, Louisiana, Mississippi, Tennessee and Texas. RMA members process virtually all of the rice produced in the United States and sell significant quantities of rice directly to the export market.

Rice is an export-dependent crop. The economic survival of all segments of the United States rice industry is closely linked to the ability of the marketing segments to competitively sell rice into the international market. In 1980, the United States was the world's largest rice exporter, accounting for approximately 23 percent of the international rice market. During the period 1981-85, United States global market share declined to 15 percent, while Thailand, our nearest competitor, expanded its market share from 22 percent to over 37 percent.

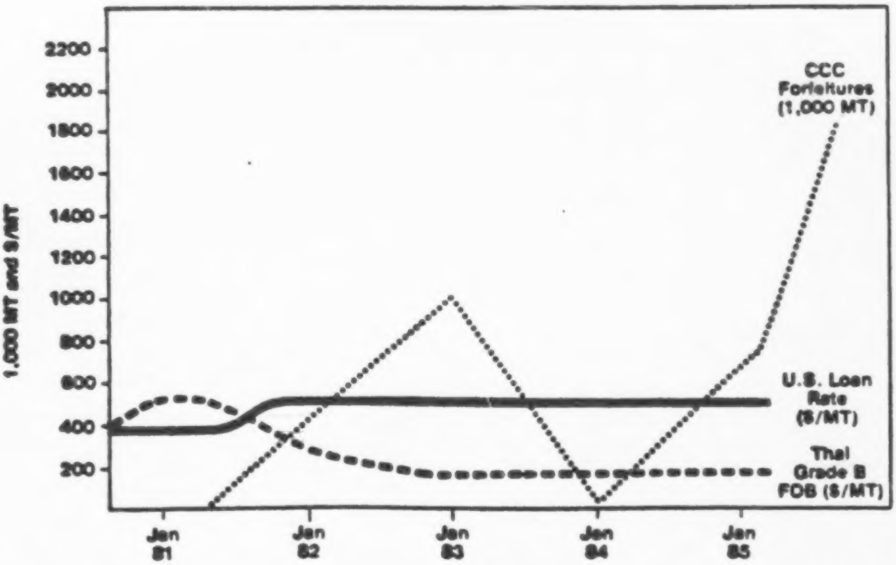
Milled Rice Export Shipments
(Source: USDA)



CY = Calendar Year

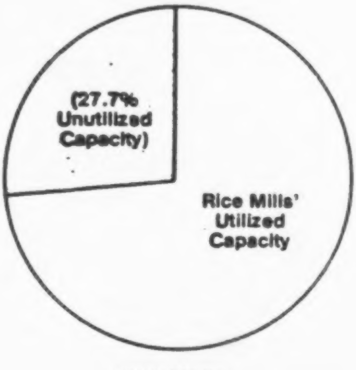
United States loss of global market share has been due to the following factors; (1) four successive good Asian rice crops; (2) high value of the dollar; (3) excessive Third World debt; (4) aggressive Thai Government support for rice export policies and programs; (5) inflexibility of U.S. rice policies such as implementation of supply-reduction and stock-building programs; and (6) failure of the United States Government to recognize the reality of the international marketplace by allowing competitor nations to expand market share through the use of export subsidies and other export enhancement mechanisms.

World Rice Price, U.S. Loan Rate for Rice, and CCC Forfeitures

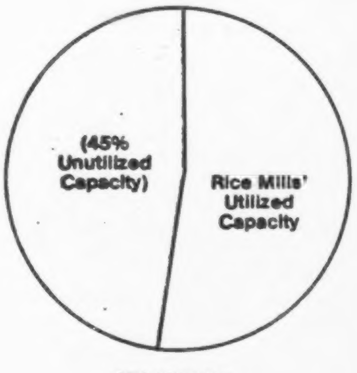


The present export price spread between Thai and U.S. rice is approximately $200.00 per metric ton. In fact, Thailand believes that it can expand market share within the next several years to about 50 percent of the total world rice market.

Presently, U.S. rice mills are operating at less than 60 percent of total capacity. Continued operation at this level will adversely impact on the economic interests of both farms and millers, as approximately 50 percent of milling volume is accounted for by farm-owned cooperative rice mills.



MY 1980/81



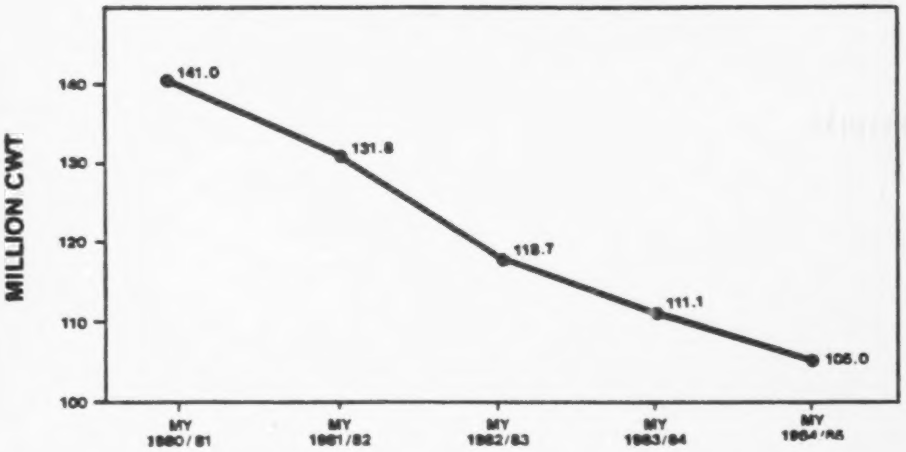
MY 1984/85

MY = Marketing Year

If current rice legislation is not made more flexible, it is expected that the United States rice industry will continue to lose export market share and contract to an area level of about 1.8 million acres out of a production base of approximately 4.2 million acres. In addition to the severe economic disruption of the industry and related service industries caused by this shrinkage, hundreds of millions of dollars invested during the past twenty years by farmers, millers and the U.S. Government in export market development programs will have been wasted.

Quantities of U.S. Rough Rice Milled

(Source: The Rice Millers' Association)



MY = Marketing Year

In view of the foregoing, The Rice Millers' Association [RMA] proposes the following recommendations for the consideration of policymakers in developing new agricultural legislation.

A. The rice industry cannot survive without a viable producer. While recognizing the volatility of the farming environment, public policy, in principle, should reward only those who are the most productive and efficient by providing a realistic income support safety net. Therefore, in view of the current depressed state of agriculture, which is projected to last for the next two to three years, RMA strongly opposes:

Reduction of payment limitations from the current level of $50,000 per producer

Implementation of a recourse loan

A cap on loan benefits

B. Government policies and programs should: (1) aggressively assist and faciitate export marketing; (2) expand profitability potential and opportunity of all industry segments; and (3) enable rice to be sold on a competitive basis.

An aggressive export policy should be established in the national interest that provides the following:

Mandate an Export-In-Kind Program when CCC stocks reach designated levels

Establish mandatory retaliatory mechanisms that will be implemented against countries which unfairly deny access to U.S. agricultural products

Implement a "Food for Progress" Program, separate from PL-480, that utilizes CCC inventories on a multiyear basis to leverage establishment of long-term economic development policies in most-seriously affected countries

Amend and fund the GSM-301 3- to 10-year Export Credit Guarantee Program

Make it a policy to tie trade and aid together in order to leverage purchase of U.S. agricultural products on a commercial basis using approximate mixes of PL-480, Food for Progress, Economic Support Funds [ESF],Commodity Import Program [CIP], GSM-5, GSM-102, and GSM-301 programs

Compensate for the high value of the dollar, which in reality is an export tax, by mandating an export restitution or monetary compensatory program

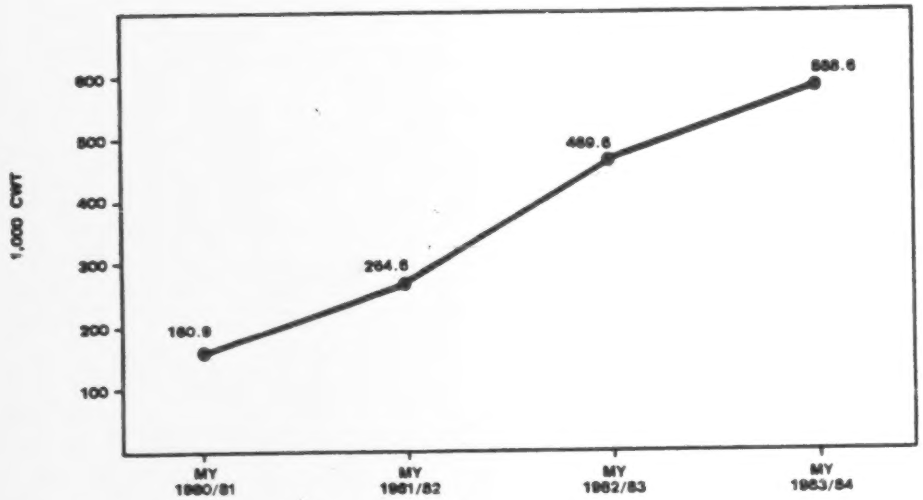
Expand and reform PL-480 to combat short-term hunger and malnutrition

C. Imports of Asian rice have increased 300%, from 372,676 cwt in 1981-82 to a projected 1,102,3000 cwt (paddy rice equivalents) in 1984-85. These imports are sold in major domestic markets displacing U.S. rice sales. This unsold domestic rice is subsequently forfeited to Commodity Credit Corporation [CCC] under this price support program resulting in outlays for acquisition, storage, interest, and handling. In addition, the rice becomes a potential market price depressant.

Imports have materially affected price support operations. Existing legislation should be amended to allow for speedier and more timely action in restricting imports that adversely impact on CCC price support programs.

Imports of Milled Rice Into the U.S.

(Source: USDA)



MY = Marketing Year

Thank you for providing us this opportunity to testify.

APRIL 2 HEARING—SUGAR, HONEY, AND WOOL ISSUES

Statement of Hon. Edward Zorinsky, a U.S. Senator From Nebraska

Mr. Chairman, today the committee will hear testimony on three commodity programs that are authorized under current law—sugar, honey, and wool. Each of these programs is important to the agricultural economy of many States. I believe it will be useful for the committee to receive testimony on the importance of the commodities and the needed Government programs that affect their production and marketing.

HONEY

Honey producers in the United States are facing economic hardship. Like producers of many other commodities, honey producers face strong and sometimes unfair competition from foreign suppliers. Honey imports since 1982 have been near 100 million pounds annually; and consumption is down, with per capita sales of honey in the United States well behind sales in other Western countries.

Members of the Subcommittee on Agricultural Research and General Legislation heard testimony on September 18, 1984, that indicates the honey industry believes increasing consumer demand will help honey producers cope with these problems.

SUGAR

Lower priced high fructose corn syrup has replaced sugar in a number of industrial uses, most notably in the soft drink industry. Sugar consumption is now about 70 pounds per capita—down from about 90 pounds per capita during the period 1975-79. During this same period, corn sweetner consumption has doubled. For fiscal year 1985, sugar use is forecast to be 8.16 million tons, of which 5.66 million tons will come from domestic sources.

About two-thirds of the sugar consumed in the United States is produced domestically and the balance is imported. Of the sugar produced domestically, less than half is produced from sugarcane, and the rest is produced from sugar beets.

Cane sugar is a commodity that produces nearly $800 million of farm receipts. The crop is grown in four States—Florida, Hawaii, Louisiana, and Texas—and in Puerto Rico.

By contrast, sugar beet sales have accounted for about $1 billion of farm cash receipts in recent years. Sugar beets are primarily grown in the North-Central States but the leading producing State is California.

The current sugar program was established by the 1981 farm bill. The act requires the Secretary of Agriculture to provide price support—through loans—for sugarcane at not less than 18 cents per pound of raw sugar for the 1985 crop. The support price has been increased each year according to a schedule set in the 1981 act.

Sugar beet prices are supported at such level as the Secretary determines to be fair and reasonable in relation to the sugarcane loan rate. Sugar loans must be taken out and repaid in the same fiscal year to avoid Federal outlays for such loans.

To minimize the risk of CCC acquiring sugar, a market stabilization price—or MSP—for raw sugar is established above the loan rate. The MSP is the minimum market price required to discourage forfeiture of any sugar to CCC. During 1985, the MSP will be 21.57 cents per pound. World market prices have been below 4 cents per pound recently.

Because of the large discrepancy between world market prices and the domestic support price, U.S. sugar imports are limited by a quota. For fiscal year 1985, the quota will be 2.677 million short tons. The 1985 quota is about one-half million tons below that of fiscal year 1984, mostly because of reduced demand.

The U.S. average retail price for sugar in July-September 1984 was 36 cents per pound—down slightly from the same period in 1983. In the Northeast, wholesale sugar prices averaged 31.5 cents per pound last summer.

The Sugar Program has seved two significant functions with regard to international trade.

First, it has provided a market for many of our long-term sugar exporting partners. This is particularly important to less developed countries dependent on sugar as a primary source of income. Research indicates that Caribbean nations such as the Dominican Republic, Guatemala, Panama, Costa Rica and others have received in excess of $300 million in export revenue as a result of the current U.S. sugar program.

Second, our Sugar Program has sent a message to foreign nations that the United States will not permit its domestic markets to be used as a dumping ground as a result of unfair competition. This signal should not be weakened.

WOOL

The Wool Act was passed in 1954 to allow the revenue from the tariffs that are collected on wool imports to go to help the domestic industry which is harmed by those imports. Incentive payments to producers, made under the authority of the Wool Act, are underwritten by tariffs assessed on specified classes of raw wools and some wool fabrics. Tariff collections go to raw wool growers as compensation for lost markets due to high levels of subsidized imports; 125,000 men and women raise sheep as a livelihood in America.

The Mohair Program, embodied in the Wool Act, provides payment to mohair producers according to a formula like the wool incentive payments. Most of the mohair raised in the United States comes from Texas. The initiation of the Mohair Program is critical to the maintenance of the mohair industry in the United States.

Since 1954, $3.6 billion has been collected on wool tariffs, $1.4 billion has been paid to wool producers and the balance of collections, $2.2 billion, has gone to the General Treasury. In the absence of the Wool Act, which makes necessary the continuation of the tariffs, how long does one suppose it would take the State Department to eliminate those tariffs? Even with the Wool Act, wool tariffs have been reduced 71 percent since 1947, not even accounting for inflation. Thus, it can be reasonably argued that the existence and continuation of the Wool Act actually makes money for the U.S. Government. While the tariff collections have been substantially reduced, they help to offset the subsidies received by foreign sheep producers—subsidies that give them a distinct advantage over the domestic grower.

The Wool Act is an essential part of the economic structure of the sheep industry, and has a distinct impact on the profit and loss statement of most sheep operations. There is a resurgent interest in raising sheep as a supplemental income source for small agricultural operations. The incentive program is a stimulant to the growing number of people in the United States who raise small bands of sheep.

Wool is one of only a few commodities produced in short supply in the United States. As such, it is a commodity adversely affected by imports.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

Sugar beets and honey bees are not significant contributors to Kentucky's agricultural economy; in fact, about the only honey sold in Kentucky is sold from small hives kept by beekeepers who don't even know there is a Federal Loan Program for honey. Nevertheless, I think it's important that we address sugar and honey issues in this committee, honey, because of the volume of honey in loan stocks and sugar, because the United States imports over one-half of its sugar.

We do, however, have sheep in Kentucky and the sheep industry is in trouble. Just 10 years ago, there were three times as many sheep on the Kentucky countryside as there are now. The price support level for wool is sufficiently high to encourage producers to expand sheep production yet wool production has steadily dropped in the last decade, and particularly the last 5 years. our land grant universities tell us that for every three cows a farmer grazes he can graze two sheep on the same pasture. In a time of farm economic stress, it seems imperative to me that we figure some way to encourage farmers to grow more sheep. The sheep and wool industry can potentially be a profitable enterprise on many Kentucky farms, and for that matter, farms all over the country. I hope this testimony today from industry people will give us the background information to develop a Wool Incentive Program that encourages sheep production and reduces this downward spiral we've seen recently.

Thank you Mr. Chairman.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, today the committee will hear testimony on three commodity programs that are authorized under current law—the Sugar, Honey, and Wool Programs. Each of these programs is important to the agricultural economy of many States. I beleive it will be useful to the committee to receive testimony the needed-Government programs that affect production and marketing of them.

SUGAR

Sugar is a major crop in the United States, despite the reliance on imports to meet consumer needs. About two-thirds of the sugar consumed in the United States is produced domestically and the balance is imported. Of the sugar produced domestically, somewhat less than half is produced from sugarcane, and the rest is produced from sugar beets.

For fiscal year 1985, sugar use is forecast to be slightly more than 8 million tons, of which about 5.7 million tons will come from U.S. sources. On a per capita basis, sugar consumption is now about 70 pounds—down about 20 pounds from 1975–79. Corn sweetner consumption per capita has doubled in the same period. U.S. sugar consumption has declined yearly since 1977, as lower priced high fructose corn syrup has replaced sugar in a wide range of industrial uses, including, recently, for soft drinks.

Cane sugar is a commodity that produces nearly $800 million of farm cash receipts. The crop is grown in four States—Florida, Hawaii, Louisiana, and Texas—and in Puerto Rico.

By contrast, sugar beet sales have accounted for about $1 billion of farm cash receipts in recent years. Sugar beets are primarily grown in the North-Central States but the leading producing State is California.

The current Sugar Program was established by the 1981 farm bill. The act requires the Secretary of Agriculture to provide price support (through loans) for sugarcane at not less than 18 cents per pound of raw sugar for the 1985 crop. The support price has been increased each year according to a schedule set in the 1981 act.

Sugar beet prices are supported at such level as the Secretary determines to be fair and reasonable in relation to the sugarcane loan rate. Sugar loans must be taken out and repaid in the same fiscal year to avoid Federal outlays for such loans.

To minimize the risk of CCC acquiring sugar, a market stabilization price (MSP) for raw sugar is establisheed above the loan rate. The MSP is the minimum market price required to discourage forefiture of any sugar to CCC. During 1985, the MSP will be 21.57 cents per pound. World market prices have been below 4 cents per pound recently—some of the lowest prices in 15 years. To insure that imports do not interfere with the domestic support price, fees have also been levied on imports of raw sugar at times. Fees were suspended on April 1 by Presidential proclamation.

Because of the large discrepancy between world market prices and the domestic support price, U.S. sugar imports are limited by a quota. For fiscal year 1985, the quota will be 2.677 million short tons. The 1985 quota is about one-half million tons below that of fiscal 1984, mostly because of reduced demand.

The U.S. average retail price for sugar in the past few years has been about 36 cents per pound. In the Northeast, wholesale sugar prices averaged 31.5 cents per pound recently.

HONEY

Honey producers in the United States are facing economic hardship. Honey is a commodity that produces a significant amount of cash receipts in Vermont and other States.

Like producers of many other commodities, honey producers face strong and sometimes unfair competition from foreign suppliers. Honey imports since 1982 have been near 100 million pounds annually. At the same time, consumption is down, with per capita sales of honey in the United States well behind sales in other Western countries. U.S. annual per capita consumption of honey has been in the range of 1 pound per person in recent years.

A loan and purchase program has been used to provide price support extracted honey since 1976. The support level has been set at 60 percent of parity, with the support price for the 1984 honey crop set at 65.8 cents per pound.

Members of the Subcommittee on Agricultural Research and General Legislation heard testimony on September 18, 1984, that indicates the honey industry believes increasing consumer demand will help the honey producers cope with these problems. However, honey producers believe some effort may be needed to reduce the substantial volume of imports from the countries that continue to capture shares of the U.S. market—Canada, Mexico, and China.

WOOL

Wool production is becoming of increasing importance in Vermont. Many of the wool producers argue that the wool payments made under the Wool Act are essential if they are to continue rebuilding a sheep and wool industry in our State; 125,000 men and women raise sheep as a livelihood in America, and a great number of them reside in Vermont. Nearly two-thirds of wool producers receive incentive payments under the Wool Act. Wool is one of only a few commodities produced in short supply in the United States. As such, it is a commodity adversely affected by imports.

The Wool Act was passed in 1954 to direct tariff revenues collected on wool imports to domestic producers who are economically harmed by those imports. Incentive payments to producers, made under the authority of the Wool Act, are made after the wool is sold through normal marketing channels. These payments are underwritten by tariffs assessed on specified classes of raw wools and some wool fabrics. The average price received for wool during the marketing year is determined. After the determination, payments are made to growers at a single per pound rate sufficient to make the national average price received by all growers equal to the incentive price. Growers have an incentive to improve the quality and enhance the price received for their wool.

Tariff collections are used to fund payment to raw wool growers as compensation for lost markets due to a high volume of wool imports.

Since 1954, $3.6 billion has been collected on wool tariffs. One billion, four hundred million dollars has been paid to wool producers and the balance of collections, $2.2 billion, has gone to the General Treasury.

Even with the Wool Act, wool tariffs have been reduced 71 percent since 1947. The existence and continuation of the Wool Act actually provides revenue for the U.S. Government.

The Wool Act is an essential part of the economic structure of the sheep industry, and has a distinct impact on the profit and loss statement of most sheep operations. There is a resurgent interest in raising sheep as a supplemental income source for small family farms such as those common in my home State of Vermont. The incentive program is a stimulant to the growing numbers of people in the United States who raise small bands of sheep.

Mr. Chairman, I look forward to reviewing today's testimony.

STATEMENT OF HON. DANIEL K. INOUYE, A U.S. SENATOR FROM HAWAII

Mr. Chairman, thank you for giving me this opportunity to testify before your Committee on behalf of the domestic sugar industry. 1985 is the 150th anniversary of sugar production in the State of Hawaii. I am thus pleased to note the presence of Mr. Robert H. Hughes, President of the Hawaiian Sugar Planters Association, who has 45 years of experience with the Hawaiian sugar industry, and Mr. John Bunker, President of the C & H Sugar Company, who has been in the business for 32 years. I am certain these two gentlemen will provide your Committee with expert testimony on the status of our sugar industry and how it has fared under the current price support program.

Mr. Chairman and distinguished members of the Committee, I am here today to urge you to maintain a strong and effective sugar title in the 1985 Farm Bill. Specifically, I would request that the Committee retain non-recourse loans at levels that will ensure the vitality of our domestic sugar industry. Like so many other American farmers, sugarcane and sugarbeet growers are faced with mounting economic difficulties that threaten their survival, through no fault of their own. I am asking this Committee not to bail out an inefficient industry but to renew its commitment to hardworking American sugar producers who need the Congress's help in meeting the challenges of unfair foreign competition, record deficits, punishing interest rates, high unemployment, and a growing trade deficit.

My job is made easier by the perceptive and incisive comments offered by the Chairman of this Committee when he introduced his recommendations for the 1985 Farm Bill, S. 616. I commend the Chairman for his understanding of the problems faced by the domestic sugar industry and found his draft legislation a welcome alternative to the President's Farm Bill, S. 501, which is completely unacceptable. I say this because the President's proposal to drop the sugar loan rate from 18 cents a pound in 1985 to 12 cents a pound in 1986 and cap non-recourse loans at $200,000 per producer would mean the instant demise of Hawaii's sugar industry—and I suspect the domestic industry as a whole. I will thus confine my remarks to a summary of the major problems confronting the domestic sugar industry and why a strong sugar program is in the national interest.

Sugar is vitally important to the State of Hawaii. A total of 26,000 people owe their jobs directly or indirectly to the industry, which is the State's third largest source of revenue. 185,000 acres, or three fourths of our farmland, is planted in sugar, and there are presently no good alternatives to this use. A cut in the present sugar loan rate would put the Hawaiian sugar industry out of business and double the State's unemployment rate to 11 percent. On Maui and the Big Island of Kauai, it would reach 30 percent. The State Government would also lose 10 percent of its General Fund tax revenues at a time when it would have to expand welfare rolls and social services to deal with the thousands of newly unemployed people.

It can accurately be said that I am here today to defend an industry which is vital to my own State. But that is not the only reason for my presence. I am also here to reassert my claim that the domestic sugar industry—which includes producers in 17 states, not just Hawaii—is important to our national security and is thus worth preserving. My purpose is not to save a costly outdated industry. Rather, it is to raise important questions about world trade, consumer cost, and the need to protect American farmers from unfair subsidized foreign competition.

Sugar has been produced in the United States for over 200 years, and the U.S. Government has acted to protect American producers from the inequities of international trade ever since it first imposed a three cents per pound tariff on loaf sugar in 1789. The reason for this protection is especially evident in today's world sugar market, where some of the user groups sitting behind me would like to purchase their sugar.

Mr. Chairman, sugar is unique because unlike many other agricultural commodities being reviewed by your Committee, the United States produces only 60 percent of its needs. The other 40 percent must be imported, and here is where the treachery of the world sugar market comes into play.

There are over 100 countries in the world today that produce sugar, and over 70 percent of this production is consumed at the place of origin. Another 10 to 20 percent is marketed abroad under contracts, preferential trade agreements, and quotas. This leaves only 10 percent available for sale on the so-called world market. Small variations in production can thus mean huge fluctuations in both supply and price because demand for sugar is fairly inelastic. For example, a three percent change in world production results in a fifteen percent change in supply on the world market. Given that over the last three decades sugar production has exceeded consumption in two years out of every three, the result is a roller coaster whereby the price of sugar has gone from 65 cents pound in 1974 to 7 cents a pound in the late 1970s then back up to 42 cents a pound in 1980, and now back down to 4 cents a pound.

As we have seen, sugar is one of the most volatile commodities in the world, and the international sugar market is primarily a dumping ground for residual supplies at five cents, ten cents, and even fifteen cents below the cost of production. Note however that all of the countries which export sugar subsidize their producers at 20 to 30 cents a pound. It is thus not against more efficient producers that American farmers are being asked to compete, but foreign governments which throw the full weight of their economic and political resources into the subsidies and uncompetitive trade practices in order to protect their own industries. Indeed, the world sugar market is so skewed by the need of different governments to protect their own industries that the International Sugar Agreement collapsed last year when it came up for renewal. And yet it is in this climate that the President is asking us to adopt an ineffective sugar program and sacrifice American producers in the name of free trade.

Mr. Chairman, I have dealt at length with the specifics of unfair trading practices by some sugar producing nations in a statement which I delivered to the Senate on March 20, 1985. It explores the theme, first raised by the Treasury Department in 1978 during a countervailing duty investigation, that exporters such as the European Economic Community are subsidizing their exports of sugar and that they are selling sugar at less than fair market value. Rather than go into the specifics of this technical discussion here, Mr. Chairman, I would ask the Committee's permission to include my statement as an appendix to my written testimony.

To summarize the remarks I made before the Senate, the President and certain sugar users are putting the cart before the horse when they suggest that we should drop our quotas and force Americans to compete in the world market, where the normal principles of supply and demand have nothing to do with the actual price of sugar. We experimented with free trade from 1974 to 1977 and again in 1980–81, after the expiration of the Sugar Act and before the enactment of the 1981 Farm Bill. Yet none of our allies reciprocated, and I for one am not willing to sacrifice American farmers on the altar of free trade when all of our trading partners protect their own sugar growers.

With regard to our trading partners, Mr. Chairman, I would point out that they are currently receiving a premium of 14 cents a pound for the sugar they sell in the United States under the quota program. This is several times the amount they would earn in the world market, and I renew the challenge I made in 1982 for anyone to introduce me to a single ambassador who would prefer to have his or her country sell us unlimited quantities of sugar at the current world price as opposed to the amounts they receive under our sugar program. For example, the Dominican Republic will earn a premium of $107 million on its shipments to the United States during the present quota year, while other CBI nations and valued allies will receive an extra $3 million to $82 million each. To date, I have not been introduced to any such ambassador, and I do not expect anyone to meet the challenge in the near future.

But let us put aside the inequities of the world sugar market for a moment. Are we in fact attempting to hide an inefficient or outmoded industry behind the sugar program? Not at all. In the case of Hawaii, we produce more sugar per acre and more sugar per man hour than any other place in the world. The Hawaiian industry produces sugar at about 18 cents a pound, which is about the world average, and we would do even better if it were not for the strength of the dollar abroad. In the State of Hawaii, which leads the world in sugar research, we produce as much sugar with 8,000 workers as they do in the Dominican Republic with 80,000. Similarly, we produce sugar at a cost below that of such countries as Barbados and Haiti. Yet we pay our workers a minimum of $7 an hour, which is almost as much as Haitian workers earn in a week.

During the last four years, the Hawaiian sugarcane industry has streamlined its operations and cut acreage by twelve percent. The number of workers employed in the Hawaiian industry has dropped from 8600 in 1981 to a projected 7500 by the end of 1985, while the cost of producing a pound of sugar declined nearly ten percent. Only the most efficient companies are still in business, and all they are asking for is a measure of protection against the dumping of surplus sugar on the world market at ruinous prices. They do so in the hopes of riding out the roller coaster of world sugar prices, currently at an all-time low, and for the prospects of better days ahead.

Mr. Chairman, I would point out that the sugar program does not guarantee the domestic industry profits. Over the last four years, on operating revenues of approximately $400 million, the Hawaiian sugar industry lost $90 million in 1981 and $2 million in 1982, while earning $29 million in 1983 and $21 million in 1984 (before taxes). Furthermore, the sugar program is non-inflationary, increasing the loan rate only one penny over the last four years. This represents an annual rise of less than one and a half percent, compared with a national inflation rate of three to six percent.

Finally, Mr. Chairman, we come to the issue of cost. It is often argued that the sugar program operates at a high cost to the American consumer. Nothing could be further from the truth, and the Senate has rejected amendments to the sugar program based on this argument by two-to-one margins on three separate occasions since 1981.

We hear a great deal about the high cost of certain commodity programs to the U.S. Treasury. Does this mean that the sugar program costs the taxpayer nothing? Not a penny, since there have been no forfeitures of sugar placed on loan with the CCC. Instead, the U.S. Government has earned revenues from the fees and duties placed on imported sugar.

What then of the sensational claims that the sugar program is costing American consumers hundreds of million of dollars each year by denying them the privilege of buying under-priced sugar from abroad? Mr. Chairman, this is nothing but a smokescreen put forward by some sugar users who would like to increase their profits by having access to the current glut of sugar on the world market. I would cite three examples to prove my point.

First, the cost of sugar that you buy in the supermarket is cheaper today than it was in 1980-81, when we had no sugar program. How could this be if the sugar program has unfairly increased costs to the consumer over the past four years?

Second, if lower sugar prices are supposed to mean lower costs to the consumer, why have we not seen this in the market place? I take as my example the Market Basket Survey published by the New York Department of Consumer Affairs on March 25, 1985. Based on a survey of 150 different food stores in New York City for the period January 1984 to January 1985, the Department of Consumer Affairs found that while the cost of sugar decreased by 4 percent last year, the price of 16-ounce sandwich cookies increased by 10 percent, the cost of ice cream went up 13 percent, and incredibly, the cost of colas rose 12 percent. I say incredibly because during this period most soft drink manufactures switched completely to high fructose corn syrup in formulating their soft drinks. HFCS is available in the United States for 25 percent less than sugar, yet the price of cola increased significantly. Given that caloric sweeteners like sugar are an important component of processed foods, where are the savings that were supposed to accrue from lower sugar prices? There were none. Savings from cheaper sugar are not being passed on to consumers, nor would they be if we abolished the sugar price support program or quotas. Rather, the New York City Department of Consumer Affairs has understood the point that high sugar prices are used as an excuse for raising the cost of sugar-containing products in times of short supply, but these prices do not come down when the price of sugar drops.

Third, I can disprove the consumer cost agrument by citing the case of Canada, where the Government supports sugar growers through direct payments and does not limit access to the world sugar market. If the sugar users' agrument is correct, we would expect consumers in Canada to enjoy significant savings over their American counterparts. But this is definitely not the case. As was reported at the International Sweetener Colloquium just two months ago, the retail price of sugar in Canada averaged just under 33 cents a pound in January, 1985, while in the U.S. It was 34 cents a pound. Where are the much touted savings for consumers in a country that allows free use of world sugar? There aren't any—the difference between retail sugar prices in the U.S. and Canada was just a penny a pound. American consumers are being duped by the argument that somehow our sugar price support program costs them vast sums of money in the supermarket.

Mr. Chairman, it has for years been the policy of the United States to maintain a domestic sugar industry capable of producing a significant portion of our sugar requirements. Such a policy stabilizes the supply and price of sugar and saves the economy $2.7 billion in a time of record high trade deficits. This is true since without a sugar industry, we would have to import all, not just some, of our requirements. To preserve our domestic industry, we need to protect it against unfair foreign competition. Without a domestic industry, we would be completely dependent on the whims of a boom-bust sugar market. The USDA has warned in testimony before the House Ways and Means Subcommittee on Trade that American consumers would face price increases of several hundred percent if we became totally dependent on foreign producers. Consumers are hurt more by high prices in years of world sugar than they are helped by the low prices promised when the market is depressed. I trust I have shown clearly that even in times of excess supply, the corporate sugar user and not the American consumer benefits from low prices. The domestic sugar industry is efficient and worth saving, otherwise I would not ask this Committee to expend one dime or one ounce of effort on its behalf. The 1985 Farm Bill must include a viable sugar program, and I look forward to working with you and other members of the Senate on ways to ensure that our agricultural industry, including sugar, remains strong in years ahead.

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SUGAR PRICE SUPPORT PROGRAM

Mr. INOUYE. Mr. President, I rise today to make my second in a series of statements on the important of maintaining an effective sugar price support program in the 1985 farm bill. The administration's proposals in this regard, contained in S. 501, are completely unacceptable. Fortunately, the distinguished chairman of the Senate Agriculture Committee has suggested some alternatives in his bill, S. 616, which bear close scrutiny.

The senior Senator from North Carolina proposes to extend the non-recourse loan rate for sugar at the 1985 level of 18 cents a pound. In support of this position, he cites the fact that the U.S. sugar industry does not compete in a free market but is faced with heavily subsidized exports from such nations as Argentina, Australia, Brazil, and the members of the European Economic Community (Congressional Record, March 7, 1985, pp. S. 2740–1). It is about the trade issue and this unfair foreign competition that I wish to address the Senate today.

Mr. President, there are over 100 sugar-producing countries in the world. Unlike most other commodities, which we export in great quantity, the United States must import nearly half of its sugar requirements; the balance is met by American sugarcane and sugarbeet farmers who have operated in conjunction with various government programs over the past 200 years to maintain production despite wild price fluctuations on the world sugar market.

The price of sugar is so volatile because only 10 to 20 percent of it is freely traded on the so-called world market: 70 percent is consumed in the country of production while at least 10 percent is marketed under special trade agreements, quotas, or contracts. For the past several years, world sugar production has far outpaced consumption, yet several countries continue to subsidize domestic production and dump their surpluses on the world market. This has meant prices as low as 3½ cents a pound in an industry where it costs between 10 and 20 cents to produce a pound of sugar. No one can compete with the price of this residual sugar, not even the high-yield, efficient Hawaiian producers. Should we open U.S. markets to this unfairly subsidized product. It would ultimately put 250,000 Americans out of business. It is because of this unfair foreign competition that we have a sugar program and need one in the years to come.

Mr. President, I recently read an article from the March 2, 1985, edition of the Economist which highlights the unfair nature of the world sugar market and the problems it poses for the American sugar producers. Entitled "Sugar Sickens Free Traders," it demonstrates why the administration's market oriented approach to agriculture will not work for sugar—not to mention half a dozen other commodities. It points out that the so-called world price of sugar is not an accurate indicator of supply and demand, let alone an accurate measure of world production costs. Rather, the world market represents a dumping ground where certain sugar-producing nations export excess production without any real concern for the price it fetches. In the case of Cuba, most of its exports—4 million long tons out of 7 in 1984—went to the Soviet Union under preferential agreements while another 500,000 tons went to Eastern European countries and 750,000 tons went to the People's Republic of China. The remaining 1¾ million tons were dumped on the world market with little concern for what it would bring since Cuba had earned the equivalent of 50 cents a pound on its sale to the Soviet Union.

The Economist article goes on to note that such unfair trade practices are not limited to Cuba: The European Economic Community is the largest dumper of sugar on the world market. By assuring its former colonies 21 cents a pound for their sugar production and subsidizing production of its domestic beet farmers, the EEC has turned from a net importer of sugar to a net exporter, producing a surplus of 5.4 million tons of sugar last year, all of which it unloaded on the world market at prices well below the cost of production. In so doing, according to the article, it "has done more than anything else to wreck the world sugar market."

This point is reinforced in a study undertaken by Economic Perspectives, Inc., entitled "Impact of EEC Sweetener Policies on U.S. and World Producers." The executive summary of this report, which I will share with my colleagues at the conclusion of my remarks, notes that without subsidized EEC exports, the world price of refined sugar would have been 24 cents per pound higher and the U.S. refined price 9.43 cents per pound higher in 1984 than the actual level. Revenues for U.S. sweetener producers would have been $2.1 billion higher last year without EEC dumping on the world market, and the American corn sweetener industry would have earned an extra $1.2 billion. More significantly, U.S. quota restrictions would have been unnecessary if the EEC did not subsidize its own sugar growers and protect European markets with high tariffs.

The Economist points out that U.S. policy, in providing for a market-stabilization price and import quotas, works against the ideals of free trade. This is true, but our sugar policy is a response to restrictive and unfair trade practices by other countries. I for one will repeat the assertion that I am not about to sacrifice the American farmer on the altar of free trade just to prove an abstract principle. The Reagan administration has the cart before the horse, and we cannot discuss free trade nor give foreign sugar producers free access to our markets until subsidized production and protectionism ceases abroad. We experimented in the free trade of sugar from 1974 to 1977 and again in 1980–81. The result was a roller-coaster ride of wildly fluctuating world sugar prices and no reciprocation by any of our trading partners.

Mr. President, I would point out that it is extremely inconsistent for any of us to argue against unilateral disarmament in military matters while expecting Americans to unilaterally drop their trade barriers and protection against unfair foreign competition. What is needed to achieve freer trade is negotiations and common action with our trading partners, not throwing American farmers into the abyss of subsidized production. The domestic sugar industry, the jobs it provides, and its contribution to our food needs are in the best interests of our Nation, and I will work to preserve it. I trust that my colleagues will join me in this effort and that together we can craft a fair and equitable farm bill to last the next 4 years and take our agricultural industry into a productive future.

Mr. President, I ask unanimous consent that the full text of the two articles be printed in the Record.

SUGAR SICKENS FREE TRADERS

The world sugar market makes a nonsense of economic theories. It is a tangled mess of trade restrictions, price subsidies and quotas. The result is that the world market price is almost meaningless, and producer profits (and losses) depend more on who a country's friends are than how efficient it is.

Sugar is one of the world's most widely traded agricultural commodities. Nearly 100m tonnes of sugar will be produced this year; around 70m tonnes of that will be consumed domestically, the rest sold abroad. Expressed as a percentage of production, sugar is more widely traded than wheat-20 percent of which is sold in world markets. Yet the world wheat price is a good indicator of the condition of the market; the price of sugar is not.

One reason is the number of producers in the market. Over 100 countries export sugar. In contrast, only five exporters account for three quarters of world wheat exports. For most producing countries, buoyant home markets are the main reason for growing the stuff. India, for instance, grows 6.4m tonnes but exports only 1m. Countries export marginal production—and marginal costs are lower than average ones. So even 3½ cents a lb is not a strong disincentive for many producers.

Still, market forces would operate more powerfully were it not that about one third of all internationally-traded sugar is not sold at world prices at all. The three main sugar-importing regions each build protective walls around their domestic markets and guarantee client suppliers fixed shares at fixed prices. About 9m tonnes a year of sugar is traded in this way between:

Cuba and Comecon. Cuba is the world's biggest sugar exporter. In 1984, it shipped nearly 7m tonnes abroad. About 4m tonnes of that went to Russia under a long-term agreement; another 500,000 tonnes went to other members of the Comecon in eastern Europe and a further 750,000 tonnes was shipped to China. The Russians pay not in cash but in tractors, doctors and instruments of foreign policy like guns. But by any standard, the deal is a good one for the Cubans: the value of the goods works out around 50 cents per lb of sugar.

The EEC and devloping countries. The European common market allows a fixed amount of sugar to be imported into the common market from so-called ACP (Africa, Caribbean and Pacific) countries. This year the limit is nearly 1.4m tonnes, four fifths of which goes to Britain. The countries get paid 21 cents a lb for their exports, six times the current world market price. This arrangement looks like a godsend to the countries which have the biggest quotas under the scheme: Mauritius, which sells 530,000 tonnes of its annual 640,000-tonne harvest, and Fiji, which has a quota of 178,000 tonnes, 62 percent of last year's blighted harvest. In fact, the EEC's sugar regime has done more than anything else to wreck the world sugar market.

Subsidized domestic prices are such a great incentive to overproduce that they have turned the EEC from a net importer of nearly 1m tonnes in 1973 into the world's second biggest exporter of sugar. It exported 5.4m tonnes last year, all of it dumped.

America and its allies. Like the common market, America also maintains an import quota, of 2.4m tonnes in the 13 months to next December. It pays foreign suppliers the same price—17¾ cents a lb—that it gives its own producers. The difference, however, is that producers' costs are so high in the United States that even 17¾ cents a lb is not a big enough incentive to overproduce.

Countries which produce far more sugar than they consume and which do not benefit from one quota or another are the big losers in this game of subsidies: Australia, Thailand and South Africa most of all. Australia produces 3.5m tonnes a year; domestic consumption is 700,000 tonnes; 190,000 tonnes go to America. Fortunately, it is one of the world's most efficient producers. Even so, in Queensland, the main sugar producing state, the farmers' union reckons one farmer in 10 could be driven out of business this year.

Everybody suffers in the end. Markets dominated by quotas and subsidies provide no incentives to efficient production. That leaves markets vulnerable to disruption. Crop failures in a couple of key producing countries send prices spiraling every six or eight years. The last time this happened was in 1980. With sugar stocks now at two fifths of annual consumption, that price shock will take longer than usual, but it will come.

IMPACT OF EEC SWEETENER POLICIES ON U.S. AND WORLD PRODUCERS—SUMMARY

The European Economic Community (EEC) only recently has become a major sugar exporter. From a net importer in 1975, it now is the dominant exporter in the world free market. As a result, EEC policies have vast impacts on sugar prices, and on sweetener producers in the United States and the world.

This study is an analysis of some of the major effects of EEC's sugar policy. It is less a prediction of an outcome than an illustration of the relative importance of EEC policies on world sugar markets and on domestic producers of sugar, HFS, and corn. It recognizes that the market impacts of such a policy have accumulated over many years and are impossible to measure in their totality. Nevertheless, the study examines economic conditions at one point in time, and attempts to measure the impacts of the policy by measuring changes that reasonably could be expected in the absence of EEC exports.

The EEC's current sugar regime reflects a policy of maintaining and protecting high internal sugar prices initially begun to insure self-sufficiency in production. However, that policy has resulted in the EEC's shift from a traditional importer to a large and growing exporter (Chart 1 and Table 1). [Chart not reproducible for Record.] Because it has high production costs and no economic advantage in production relative to the major sugar producing regions of the world, its position as a dominant world exporter has been achieved only at great expense.

TABLE I.—NET EXPORTS OF SUGAR TO THE WORLD FREE MARKET

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Million metric tons, raw value:											
Exporting country:											
EEC		1.2	2.4	3.3	3.4	4.3	5.4	5.6	4.9	5.5	4.4
Brazil	1.7	1.3	2.5	1.9	1.9	2.7	2.7	2.8	2.8	2.9	3.0
Australia	2.0	2.6	3.0	2.0	2.0	2.4	3.0	2.5	2.4	2.6	2.8
Cuba	1.7	1.4	1.5	2.0	2.1	2.2	2.2	1.7	1.7	1.7	1.7
Philippines	1.0	1.5	2.6	1.1	1.1	1.8	1.3	1.3	1.0	1.0	1.0
Thailand	0.7	1.1	1.7	1.0	1.2	0.5	1.2	2.0	1.4	1.4	1.4
Others	6.3	6.4	7.2	6.2	6.6	5.8	5.0	5.8	6.4	5.4	6.2
Total	13.4	15.5	20.7	17.5	18.3	19.4	20.6	21.6	20.5	20.5	20.5
Percent of free market:											
EEC	0	8	11	19	19	22	26	25	24	27	21
Brazil	13	8	12	11	10	14	13	13	14	14	15
Australia	15	17	14	12	11	12	14	12	12	13	14
Cuba	13	9	7	12	12	11	11	8	8	8	8
Philippines	7	10	12	6	6	9	6	6	4	5	5
Thailand	5	7	8	6	7	2	6	9	7	7	7
Others	47	41	34	35	36	30	24	27	31	26	30
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Historical data from ISO.

The EEC policy has three important economic effects. Its extremely high price structure (which must be protected by very high import levels) has led to production far above amounts that otherwise would be forthcoming. At the same time, the high consumer prices have discouraged consumption. These two effects in combination have resulted in production of substantial quantities of sugar in excess of consumption requirements. To avoid holding the large surpluses that are generated, the EEC must provide large export subsidies to move sugar into world markets. By that means, and in spite of the lack of an advantage in production, the EEC has greatly increased its share of the world "free" sugar market from zero in 1975 to more than 27 percent in 1984.

In 1984, the huge world surplus sugar stocks were more than 50 percent of expected consumption, the result of recent policy changes in the EEC and elsewhere. The world price of raw sugar fell below four cents per pound during the year and averaged only 5.4 cents per pound (raw value). However, the EEC exported more than 5.5 mmt during the year. Had they exported no sugar in 1984, the world price would have been substantially higher, perhaps more than 15 cents per pound even with the large world sugar stocks. Such a change could have been expected to allow the United States to drop the import quotas imposed in 1982 and return to the use of fees and duties to protect the loan program and hold prices at about the actual 1984 levels.

Had the world sugar stocks been near trend levels at the beginning of 1984, the absence of EEC exports from the market would have meant world refined sugar prices about 24 cents per pound higher, and U.S. refined sugar prices about 9.43 cents higher than the 1984 average (Table 2). U.S. sweetener producers' revenues would have been more than $2.1 billion higher and corn sweetener producers' revenues $1.2 billion above the 1984 levels. U.S. quota restrictions would have been unnecessary.

The EEC sugar policy significantly affects HFCS production and corn prices as well. With world sugar stocks at trend, the absence of EEC exports would have been associated with U.S. refined sugar prices 9.43 cents per pound higher than the 1984 average. Over the intermediate term, such an increase would have the potential to facilitate increased HFCS competition. By the end of the decade production likely could be as much as 53.4 million cwt above 1983 output. Such an increase would mean about 160 million bushels more corn used in HFSC production annually and higher corn grower sales of as much as $1.2 billion each year.

TABLE 2.—IMPACT OF EEC EXPORTS, 1984

Item	1984 stocks levels		World stocks at trend [1]	
	Actual	Absent EEC exports	With EEC exports	Absent EEC exports [2]
	Cents per pound			
World sugar prices:				
Refined	9.40	19.19	21.60	33.80
Raw	5.43	15.15	17.20	28.50
US sugar prices:				
Refined	28.04	28.04	28.04	37.47
Raw	21.80	21.80	[3] 21.80	[4] 30.53
Difference from 1984 average				9.43
	Million dollars [5]			
On U.S. producers:				
Sugar (5.18 mst)				977
HFCS (4.30 mst)				811
Other corn sweetener (2.54 mst)				347
Minor caloric sweetener (0.17 mst)				14
Total				2,149

[1] 45.2 mmt, raw value, in 1984

[2] Comparison assuming equilibrium following the changes specified, reflecting normal stock levels at the beginning of the year and the absence of EEC exports.

[3] World raw sugar price, duty, and 1.4 cents per pound freight, insurance and handling, plus fees as necessary to protect the loan program.

[4] World raw sugar price plus minimum duty of 0.625 cents per pound and 1.4 cents per pound freight, insurance and handling.

[5] Assumes spread between sugar and HFCS is unchanged and other sweetener prices increase proportionally less than sugar.

A 160 million bushel increase in the commercial use of corn would substantially reduce government program costs. Under FY 1985 crop conditions, it could reduce the cost of CCC loans by $281 million, storage payments by $33 million and target prices by $200 million, a total of $514 million.

The absence of EEC exports from the world sugar market would have a major impact on traditional sugar exporters, especially the developing nations in Central America and the Caribbean (Table 3). Even with the large 1984 stocks, revenues of traditional sugar exporters would have been $2.6 billion higher had the EEC not been in the market in 1984. Had 1984 beginning world stocks been a normal level, their export revenues would have approached $6.7 billion. For the Central American and Caribbean nations alone, annual revenues could have been $600 million higher, for South America $2.1 billion, and for Africa more than $728 million.

TABLE 3.—VALUE OF SUGAR TRADE, 1984, NORMAL BEGINNING STOCKS

(In millions of dollars)

	Total		Change
	Actual	No EEC exports	
Origin:			
EEC	699	0	−699
Other Caribbean	362	686	324
Central America	306	574	268
Canada-Mexico	14	62	48
South America	781	2,870	2,089
Africa	522	1,250	728

TABLE 3.—VALUE OF SUGAR TRADE, 1984, NORMAL BEGINNING STOCKS—Continued

(In millions of dollars)

	Total		Change
	Actual	No EEC exports	
Oceania	460	1,816	1,356
Asia	508	2,085	1,577
Other	137	917	780
Total world	3,789	10,260	6,471

STATEMENT OF HON. SPARK M. MATSUNAGA, A U.S. SENATOR FROM HAWAII

Mr. Chairman, members of the Committee, I thank you for this opportunity you have accorded me to be here this morning with my colleague, Senator Inouye, and with two leaders of the sugar industry of our state: Mr. Robert Hughes, President of the Hawaiian Sugar Planters' Association, and Mr. John Bunker, President of the industry's refining and marketing cooperative, California and Hawaiian Sugar Company. These two gentlemen have been associated with the sugar industry for all of their working lives and bring a rich background of experience and knowledge of sugar to your hearings here this morning.

Mr. Robert Hughes began his sugar career in 1939 on his native island of Maui after receiving a Bachelor of Science degree in sugar technology from the University of Hawaii and pursuing graduate work at Louisiana State University. He rose through the ranks to the top factory position at Maui's Hawaiian Commercial & Sugar Company, the largest plantation in the industry, before joining C. Brewer & Co., Ltd., Hawaii's oldest agricultural concern, where he eventually became its Executive Vice President. Upon his retirement in 1980 he was asked to head the Hawaiian Sugar Planters' Association, the industry's research and public policy arm.

Mr. John Bunker also has spent most of his life in the sugar business, following in the footsteps of his distinguished father, the late Ellsworth Bunker, who also served our Nation as an Ambassador to key legations under seven presidents at critical periods in our diplomatic history. John Bunker joined his father in the sugar business upon the completion of his education and service in the United States Army in World War II and the Korean war. Prior to joining California and Hawaiian, he served as President of Holly Sugar Corporation and earlier had been President of Great Western Sugar Company. His background in sugar refining includes the processing and marketing of both sugarbeet and sugarcane. Both Mr. Hughes and Mr. Bunker are uniquely qualified to represent the sugar industry at these hearings today and I am sure they will acquit themselves well in responding to any questions members of the committee may have.

If I may say so, Mr. Chairman, I too have had some experience in this field—and field experience at that. My parents were sugar workers and I grew up in a plantation community. As a young man I worked in the sugar cane fields during summer breaks from school. Later I gained a different perspective on the industry as a state lawmaker and subsequently as a member of the House Agriculture Committee before coming to the Senate.

With this background, it is hard for me to imagine Hawaii without sugar, although this is the prospect we now face. Sugar took root in Hawaii well before the British explorer James Cook first saw land off the shores of my home island, Kauai. It is said that a Chinese on the Big Island of Hawaii was the first person to extract sugar from cane while a caucasian or haole, John Wilkinson, and a Hawaiian chief, Boki of Oahu, were the first to attempt to cultivate sugarcane commercially at a spread in Oahu's Manoa Valley; but it was on Kauai where the first recognized plantation enterprise was lanuched near my birthplace at Koloa in 1835. From its earliest years sugar has been the dominant agricultural industry of our islands. Its importance was immediately recognized by our earliest emissaries to the Hawaiian kingdom. President Zachary Taylor sent a former Maine Congressman, Elisha Hunt Allen, to Honolulu as his port consul and diplomatic agent in 1849; Allen foresaw the importance of the emerging sugar industry and worked for a reciprocity treaty between the two countries, first as a U. S. consul and later as the kingdom's ambassador to Washington, eventually achieving his goal in 1875.

In the 1930's when I gained first hand experience with sugar, the industry employed more than 40,000 hourly workers and produced approximately a million tons of sugar each year from some 250,000 acres. Peak production of 1,235,000 tons was reached in 1966. Last year we produced 1,061,000 tons, but with fewer than 7,000 hourly workers and from less than 200,000 acres of land. These results were achieved with a record yield of 11¾ tons of sugar per acre.

This is a remarkable success story. The sugar industry in Hawaii produces more sugar per acre and more sugar per man hour than is produced anywhere else in the world. The Hawaiian industry has been the technological pace-setter for the entire sugar world and is efficient by almost any measure. One might expect, therefore, that with such a proud record it is an industry which can very well look after itself. That is not the case, however, and I want to tell you why.

Sugar is produced in many countries of the world but it is not produced without government involvement, government protection and some form of government subsidy. This is a fact of life in the world's sugar industry.

In order to survive, the industry must be protected from unbridled competition from dumped foreign sugar which is surplus to the internal needs of the producing countries and their long-term export agreements. The so-called "world market" in sugar is a dump-bin for homeless stock.

No country produces sugar at even double today's so-called world price of less than four cents a pound. Why has production not been reduced in the face of prices so far below any producer's costs? There are several reasons. First, little sugar is actually sold at that so-called world market price.

Second, sugar is not a crop which a farmer can go into and out of on a short term basis. As a result, supply is unresponsive to price, particularly on the down side. Hence, the market is characterized by long periods of low prices followed by a year of two of very high prices. The kind of stability provided by the current sugar loan program is, therefore, essential. Moreover, in the world of today's overvalued dollar, American workers cannot be expected to compete with Brazilian sugar workers who are paid $75 per month or with Haitian workers being paid $3 a day in Dominican Republic cane fields.

The sugar program is not only essential to our sugar producers but it is most beneficial to American consumers. Not only do sugar prices remain depressed for long periods of time but they are also very volatile. Today raw sugar can be purchased for four cents a pound whereas in the latter part of 1980 it cost more than 40 cents per pound. Demand is highly inelastic. Consumers want their sugar, and whether it costs less than a dime or more than 50 cents a pound they use the same amount of nutritive sweetener. Our consumers cannot be made reliant on dumped foreign sugar today and yet avoid much higher prices tomorrow.

Critics of the sugar support program point to the shift from sugar to high fructose corn sweetener and claim the high sugar loan rate is responsible. That is sheer nonsense. This shift was expected even before we enacted the current program. With the development of 55% high fructose corn sweetener (HFCS) as a cheaper, but acceptable, liquid substitute for the soft drink industry, it was apparent that this market would be lost to the sugar industry. There was no price at which our sugar industry could survive and retain that market. The changeover to HFCS is now almost complete. Only in Hawaii do we find our Pepsi and Coca-Cola still sweetened with sugar—and I must say it tastes better.

The loan level for sugar is not the reason for the HFCS takeover, however. It is clearly a case of a lower cost domestically produced sweetener replacing sugar. Unless we had policies similar to those of the European Economic Community and some other sugar producing countries that limit HFCS imports and production, this was bound to happen.

Mr. Chairman, you also may hear that the sugar loan rate is too high as compared to other commodity loan rates. This too is not true. Opponents of the sugar program point out that the return above variable costs on an acre of sugar is higher than it is on oats or corn or wheat or soybeans. The return over variable costs is higher—but certainly not as a percent of those variable costs. You would not expect to earn as much interest on a $100 investment in a money market account as you would on a $1,000 investment. Why should you then expect to earn as great a return on a $100 per acre investment in a crop such as wheat or oats as you do on an acre of Hawaiian sugarcane, where you have invested more than $2,500 an acre in variable expenses?

I am sure you will hear other arguments against continuation of the program—or at least at the current level. I can only tell you that it has been absolutely essential to the survival of the sugar industry in Hawaii and in the nation as a whole. That it is not excessive is evidenced by the fact that the industry is smaller today than it was in 1981 when the current program was enacted. It has been only a safety net—not a security blanket.

I hate to contemplate what my home-island of Kauai, would be like without sugar. More than 96% of the cropland of that beautiful "Garden Island," as we call it, is in sugar. Adam A. "Bud" Smyser, the distinguished editor emeritus of the Honolulu Star-Bulletin, wrote a column recently entitled, "When the Plantations Close." He describes eloquently what has happened on the north coast of Kauai where plantations have closed down. He tells of the slow and partial revival of some of those former agricultural towns with an ersatz touristy look and pines a bit for the old. In beginning the piece, Bud Smyser wrote: "I wondered on a visit last week if seeing northern Kauai was a look into Hawaii's future. If President Reagan has his way with agricultural protection and supports, more sugar plantations on all our Islands will be closing down in the years ahead. And a lot more former farm land will join the idle acres on northern Kauai."

Some of Hawaii's former sugar lands have gone into tourist use but three-fourths of the idled acres in Hawaii still lie dormant or are used merely for pasture. It is a grim prospect for those of us who have spent a lifetime with sugar responsible for greening so much of Hawaii's scenic acres. I hope the members of this committee won't let it happen, so that fifty years from now we will be celebrating 200 years of sugar in Hawaii as our farming contribution to the Nation foreseen by statesmen of foresight such as you.

Thank you very much.

STATEMENT OF ROBERT H. HUGHES, PRESIDENT, HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Mr. Chairman and Members of the Committee, my name is Robert H. Hughes. I am the president of the Hawaiian Sugar Planters' Association, a nonprofit agricultural organization of sugar companies and individuals engaged in the production of cane sugar in Hawaii, which represents all of Hawaii's sugar producers.

Exhibit I (attached) is a brief description of the Association and the sugar industry in Hawaii.

Mr. Chairman, it is the strong recommendation of the Hawaiian Sugar Planters' Association that the 1985 Farm Bill include a sugar provision similar to the sugar title in the 1981 Act. Joining me today in making that plea is Mr. John Bunker, President of California and Hawaiian Sugar Company, an agricultural marketing and processing cooperative owned by the Hawaiian sugar industry.

I speak from the vantage point of forty-five years in the sugarcane industry in Hawaii and Mr. Bunker has thirty-two years in the sugar business in both sugar beets and sugarcane.

During almost all of my forty-five years in the industry we have had a domestic sugar problem. That is not surprising because all major sugar producing and consuming countries have sugar programs. That is true of the sugar producing countries because it is essential to the stability, and indeed the survival, of a sugar industry.

We come before you today with a call for continuation of the current sugar program. We do so because it has allowed for the survival of a majority, though not all of our producers. Puna Sugar Company, one of our major plantations which historically produced more than 50,000 tons of sugar annually on more than 16,000 acres of land and employed some 500 workers, has gone out of business since enactment of the '81 Farm Act. On a number of other plantations less productive acreage has been taken out of sugar in our effort to increase efficiency. We now have fewer acres in sugar in Hawaii than at any time since 1908—the lowest acreage in 77 years. Fortunately yields have increased so that sugarcane production has not declined to 1908 levels. Nevertheless, Hawaii may have produced its last million-ton crop. Moreover, only one-fourth of our idled sugar acreage has found other productive crop use. The remainder is either lying fallow or in pasture. The vigorous search for alternatives to sugar on the three-fourths of the cropland of Hawaii now in sugar continues but without success except for relatively few acres converted to crops such as pineapple, macadamia nuts or guava.

The Hawaiian sugar industry produced 1,061,814 tons of sugar, the highest production since 1975 and we achieved that result on some 15 percent fewer acres because of record yields of 11.86 tons of sugar per harvested acre and because an extensive drought forced some of the 1985 sugarcane crop to be harvested in 1984. While we produced 18,000 tons more sugar this year than in 1983 we received $18 per ton less for our sugar despite a one-fourth cent increase in the loan rate over

1983. The surplus of sugar on the market from increased deliveries in our marketing territory in addition to a sharp increase in the import of sugar blends and high sugar content products, reduced prices in the marketplace. The somewhat earlier than anticipated switch to 100 percent HFCS by both Pepsi and Coca-Cola reduced demand and also had some impact.

The industry suffered a $90 million loss in 1981 and since then has been striving to return to profitability. In 1983, the industry reported less than $1 million on a fully allocated cost basis and a loss of $9.4 million in 1984.

Obviously the present program, as currently administered, is not excessive of our needs. This is not because of increased production costs since enactment of the '81 Act. We have, in fact, reduced our costs in 1981 over the years of the current program by some 8.4 percent, from 20.5 cents per pound to 18.3 cents per pound in 1984. These cost reductions have been achieved in the face of both hurricane and drought damage to our crop through increased yields and through reductions in manpower of some 10 percent. Further, cost reductions have been accomplished in a period of continuing, if reduced, inflation. However, we do not believe it will be possible to continue to make cost reductions of this magnitude over the long term. Continue we must, however, if we are to achieve a sufficient return to permit the necessary investment in the plant modernization essential to our long term efficiency and survival, unless prices rise.

While our sugar industry has declined in Hawaii it is still important. It is important not only to the corporate sugar farmers and independent family farmers who grow sugar but it is also critically important to the almost 7,000 employees who work in the sugar industry in Hawaii and to their families. It is important to the almost 20,000 additional men and women whose jobs are indirectly dependent on our sugar industry, It is important to the State of Hawaii. The $410 million in gross annual receipts from our sugar provide not only income for our workers and suppliers but also for 10 percent of our State general fund tax receipts.

In an island state, such as Hawaii, export type activities are vital. The principle export earners are the invisible exports of tourism and federal expenditures, mainly defense expenditures. Sugar is the largest by far of our visible exports. The loss of any segment of our export business is difficult to replace. Sugar is financed by purchasing power generated outside the economy of the islands and the income from that activity adds to the income stream rather than being a mere transfer from one activity to another, such as local enterprise oriented to the local market.

Dr. Thomas Hitch, Senior Vice President (Retired) of the First Hawaiian Bank, in a 1984 analysis showed that for every sugar worker in Hawaii another 2.29 workers held jobs outside the industry but were dependent upon the industry for those jobs. Of the $410 million generated from sugar in Hawaii last year, 36 percent went directly to payroll, and an additional 12 percent was spent for employee benefits. Of the remainder about half is spent within the state. Every dollar of sugar income generates $1.15 in personal income to the residents of the State.

The demise of our sugar industry would double the unemployment rate in Hawaii. The State could not cope with the welfare service costs, while maintaining the essential state services for its citizens with the attendant drop in tax revenues resulting from the loss of this industry, were this to happen.

The impact on the neighbor island economies would be particularly devastating with unemployment reaching as high as 29 percent on the Island of Kauai. Alternatives are not promising. Some 3,500 acres would provide all the fruits and vegetables that can be grown in the islands, which are now imported. We cannot produce in competition with California for the mainland market given our transportation costs. Areas that have gone out of sugar remain depressed decades later. The State of Hawaii put some $6.2 million in state funds into developing alternatives at Kohala after that 13,000 acre plantation closed in 1975, idling 500 workers. Most of the efforts failed and a decade later there are only some 50 jobs to show for that State effort.

When former sugar lands lie fallow it isn't just sugar production and the sugar industry that suffers. The State's number one industry, tourism, is also damaged severely by the disappearance of the fields of sugarcane. The beauty of our islands, which is Hawaii's number one tourist asset, would be irreparably damaged if sugar is replaced by weeds and scrub growth. The economic impact of that could well exceed the direct economic cost from the loss of sugar jobs.

Our plea for the continuation of the sugar program is not limited to our local Hawaii interest although that remains a principal concern. The entire domestic sugar industry, both sugarcane and sugar beets, is united in support of the program. Not only sugar producers but also the corn growers and the corn wet millers gain significant benefits from this sugar program.

Moreover, the benefits flowing from this program are not limited to the domestic corn and sugar producers. Foreign sugar producers, although limited by a quota, are provided a significant premium on sales to our market which greatly enhances the earnings from their sugar exports to the United States. In 1984 that premium averaged almost 14 cents per pound, or $280 per ton, of sugar sold to the U.S. market. The 15 CBI countries have historically provided some 38 percent of our imports needs. Our assured market, at a price well above the world price, has more than doubled their 1984 income from their total sugar exports.

Without a U.S. program more sugar would undoubtedly be dumped on the U.S. market as soon as our own producers are forced out of business. In the long run some of these suppliers may increase their revenues from sugar sales if the world market is enhanced sufficiently by the disappearance of much of the U.S. industry. In their background studies the Department of Agriculture forecasts that without a program we will lose some 40 percent of our acreage by 1990 while the price of sugar will be higher to the U.S. consumer than it is today.

Why anyone would espouse a program which would cause the demise of at least 40 percent of our industry—and I think that figure is understated—while increasing the ultimate cost of the product to the consumer, and save not one dime in cost to the government, is incomprehensible. The only justification offered is that if other crop support levels are cut sugar must also take its cut. It is as if there is merit in telling a farmer that if he can't make a living growing corn or wheat then it is not fair that he be permitted to make a living growing any other crop.

Justification for a continuation of the present sugar support program is not based on the needs of our industry alone, nor on the benefits that flow to developing countries receiving significant off-budget foreign assistance in the form of higher sugar earnings. It is based, in large part, on the very nature of the world sugar market.

The U.S. sugar program is certainly not unique in the world of sugar producers. All major producing and consuming countries have sugar programs. Producer programs protect their producers from having to compete with dumped sugar on the world market by limiting access of such sugar to their internal markets. A few make direct payments to its sugar producers to assure their survival. Even non-producing countries, such as Norway, prevent dumped world price sugar from reaching consumers in order to provide a measure of stability.

More than 70 percent of the almost 100 million metric tons of sugar produced annually by some 100 countries around the world is consumed in the country in which it is produced. Sugar is a heavily traded commodity but at least half of that remainder is traded under special arrangements. If bilateral long term agreements and U.S. import quotas are taken into account only about 10 percent of world consumption is bought and sold at the so-called world price.

Each major producing country seeks to assure its sugar farmers a sufficient return to stay in business. It is only the surplus production, produced at a marginal cost significantly lower than the average cost, which is sold at the world market price.

The relatively small and residual nature of the world sugar market and the inelasticity of world sugar demand, as well as changes in national sugar policies, create a volatility of pricing on the world sugar market unmatched in the major commodity markets. Heavy surpluses, such as the current surplus of 15 million tons, usually hand over that market. Occasional shortfalls in production are accompanied by tremendous price increases usually of short duration. Measured in constant 1982 dollars the average annual price on the world market has ranged from more than 50 cents per pound in 1974 to just over 5 cents in 1984. No producer of a multi-year crop can stay in business faced with such volatility.

Confronted with such a market, all countries seek to protect their producers from having to sell their sugar unprotected into that market. Periodic efforts have been made to develop an effective International Sugar Agreement between exporting and importing nations. The recent Agreement, negotiated in 1977, provided for a price objective of 13 to 23 cents per pound for raw sugar. The failure of the EEC to participate and the advantage taken by EEC of its non-membership in pursuing a policy making it the leading exporter to the world market, assured the ineffectiveness of the ISA. Cuba's exports to the COMECON countries were also excluded further dooming this effort to ease price volatility and to keep prices within the 13 to 23-cent range. Efforts to negotiate a new ISA in 1983 and 1984 failed when agreement proved impossible among the EEC, Cuba and Australia.

The failure to negotiate a new ISA has further emphasized the need to pursue individual country policies sufficient to protect producers and consumers alike from the highly volatile world market.

Some criticize the present program for placing a floor under prices but no ceiling and claim the program is a bonanza for the producer at tremendous consumer cost. Nothing could be further from the truth. The consumer also benefits by keeping efficient producers in business, for he is assured a plentiful supply of sugar by the very preservation of producers of domestic nutritive sweeteners. Moreover, under the present quota program, world producers will continue to supply the U.S. market in periods of higher prices elsewhere in order to preserve their share of that preferred market, as they have done in years past. I believe that those who call for a ceiling on sugar prices to accompany the floor should be required to come up with a program by which they determine who is going to have access to the limited supplies of lower priced domestic sweetener in periods of higher priced foreign sugar.

I can appreciate the desire of big industrial users of nutritive sweeteners to have unlimited access to low price subsidized sugar on the world market. A recent study by Economic Perspectives, Inc. concludes that without the subsidized surplus sugar from the EEC dumped on the world market in recent years, the price of raw sugar on the world market would be 24 cents per pound above its present price.

Our sugar policy may not be in accord with the principles of free trade but I, for one, see no merit in sacrificing the American sugar producer on the altar of free trade in a gesture of unilateral disarmament on trade issues. If freer trade is going to be achieved it will be through mutually advantageous trade negotiations. Abandonment of our current sugar program will do nothing to assure greater access to foreign markets, nor will purchases of larger quantities of sugar at prices below anybody's cost of production, provide increased revenues to foreign countries for the purchase of our agricultural exports. The traditional supplies to the American sugar market earn more from their present limited sales at U.S. domestic prices, than they can hope to earn from increased sales at world "dump" prices. It may be true that those prices would not long exist if our 5.5 to 6 million tons of domestic annual supply is forced off the market, but I find scant benefit in assuring a haven for the 5 million tons of annual surplus EEC high cost subsidized production at the expense of our going out of business. Such an action would seem to send exactly the wrong signal to foreign producers.

In closing Mr. Chairman, I would like to comment on the Administration's proposed sugar program.

One does not have to pass judgment on "market oriented" loan rates on other commodities to say it just doesn't work on sugar. I have calculated what loan rates would have been in recent years if they had been oriented on the previous 3 years average of world prices in constant 1982 dollars. The loan rate would have been 25.46 cents a pound in 1976. It would have dropped to 7.52 cents in 1980, rising to 13.62 cents in 1982 and dropping to 5.54 cents in 1985. I cannot comprehend the suitability of a program based upon such violent changes in loan rates.

Mr. Chairman, I know the Administration proposal would be phased in over a period of years. Their immediate reduction of the loan rate from 18 cents to 12 cents, which would cost the Hawaii producers $120 million a year in reduced revenues, would be quite enough, however, to force our industry out of business in short order. The promise of deficiency payments, with a $20,000 payment limit based upon the differential between the market price and an established price of 18 cents per pound the first year, declining to $10,000 and 12 cents, would provide only $130,000 in payments for more than 95 percent of our production. The small independent grower, who might otherwise benefit from such payments, would also be forced out of business, as there would be no market for his sugarcane absent the large producers milling operation.

The Administration defends its policy of moving to market oriented loan rates and deficiency payments on the basis of consistency with other programs. A market-oriented agricultural policy completely disregards the reality of trade in products where subsidies, quotas, price regulation, production control and other means are utilized by governments for their own ends. Consistency can hardly be an argument for the destruction of a domestic industry for the sake of an ideal of no value in today's imperfect world.

Thank you very much.

[Exhibit I]

HAWAIIAN SUGAR PLANTERS' ASSOCIATION AND THE HAWAIIAN SUGAR INDUSTRY

The Hawaiian Sugar Planters' Association (HSPA), founded in 1882, is a nonprofit agricultural organization of sugar companies and individuals formed to maintain, advance, improve and protect the sugar industry in Hawaii and to support a scientific experiment station. This experiment station is one of the finest research institutions of its kind in the world. Attached to this exhibit is a list of member companies of HSPA and a report on their production of raw sugar during the past decade.

Hawaii is a major source of domestic sugar and annually supplies approximately 1 million tons of sugar, or almost 18 percent of the sugar produced and 12 percent of the sugar consumed in the United States. Our State is a natural place to grow sugarcane and we do it efficiently. Our production per acre-year is the highest in the world as is our production per manhour. Sugar is by far the most important agricultural commodity produced in the Islands and it is one of the largest sources of income, ranking behind only the federal government expenditures and tourism.

The industry provides year-round employment for approximately 7,000 employees in Hawaii, most of whom are union members and another 20,000 non-sugar jobs are dependent on our industry. Our sugar workers are among the most skilled and highest paid year-round agricultural workers in the world in terms of average daily cash earnings and employee benefits. Our operations are highly mechanized and we require specialized equipment which must be specifically adapted to the widely varying conditions found within the Islands. For all these reasons, the industry is highly capital intensive.

Sugar production is the major agricultural acitivity in Hawaii and the second largest supplier of export income in the private sector of the economy. The dependence on sugar income in Hawaii is greater by far than in any of the sugar-producing states on the mainland. Hawaii is second only to Florida as the largest sugar-producing state in the nation.

It is estimated that collapse of the sugar industry in Hawaii would result in a doubling of the unemployment rate and a double-digit percentage decline in the State general fund tax revenues. Some islands would be harder hit than others: on Kauai, where 99% of the crop land is in sugar, the unemployment rate would be 29 percent; on Hawaii, 21 percent; on Maui, 18 percent. The closing of the sugar industry would be devastating to the State's economy and would result in the almost complete collapse of the neighbor island economies.

The insularity of the State of Hawaii creates a unique barrier to the mobility of the work force of the State in general and to sugar specifically. Sugar is grown on four islands within the State, further reducing the mobility of the work force. It is interesting to note that upon the closing of a sugar plantation in the early 1970's, 90 percent of the work force chose to remain on that island, even though employment was available on another island.

Sugarcane is grown on 188,000 acres, comprising about 75 percent of the crop acreage of the State. Despite years of effort and millions of dollars in research expenditures by the sugar industry and the State, no viable alternative use for the vast majority of this land has been found.

The Hawaiian Sugar Planters' Association represents not only the growers and first stage processors of cane sugar but also California and Hawaiian Sugar Company, an agricultural, marketing and refining cooperative. California and Hawaiian Sugar Company markets the entire Hawaiian sugar crop, selling approximately 20 percent of the crop as raw sugar to Gulf and East Coast refiners, and refining approximately 80 percent at the largest sugar refinery in the world, located at Crockett, California.

California and Hawaiian Sugar Company employs some 1,500 people, who are therefore dependent on Hawaiian sugar production. There are 7,000 employed in Hawaii by HSPA and the member plantations.

Sugar is important to Hawaii and there are no good alternatives for the employment of our agricultural lands or for the people engaged in the production and processing of sugarcane. Survival of the Hawaiian industry is vital to our State's welfare. The sugar we produce is also essential to our nation's consumers.

In Hawaii, we have lost three plantations in the decade of the '70s and one more closed its operations in 1984. Our surviving plantations are aggressively examining alternatives to sugar, such as guava and macadamia nuts, in an effort to diversify. Hawaiian sugar production has declined from 1,230,000 tons in 1971 to an anticipated crop of less than 1 million tons in 1985.

A number of important factors serve to distinguish the Hawaiian sugar industry from its counterparts on the mainland. They include the following:

1. Typical Hawaiian sugarcane is allowed to grow for approximately two years before it is harvested, and in some cases, it grows for three or more years. Typical mainland cane is harvested between 11 and 14 months after planting. Investment in Hawaiian sugar planting is, therefore, a long-term operation, especially since we get additional ratoon crops at two year intervals from each planting.

2. We have found no satisfactory alternative crop for most of the acres previously planted to sugarcane. Hawaiian producers do not have the option of shifting to other, non-sugar crops which many mainland farmers enjoy.

3. Hawaii's geographical location makes it necessary to ship our sugar at least 2,400 miles to our refiner on the West Coast and substantial amounts of Hawaiian sugar go to more distant ports on the Gulf and East Coast. All sugar shipped to mainland refiners must be transported in ships governed by the Jones Act. Transportation costs are consequently significantly higher than other suppliers of raw sugar to the U.S. market.

Hawaii is a small State with less than a million inhabitants. A sound domestic sugar industry is of vital importance to the fragile economy of the State. Failure of any of our larger producers would be a tragedy for all the people of Hawaii.

STATEMENT OF DALTON YANCEY, EXECUTIVE VICE PRESIDENT, FLORIDA SUGAR CANE LEAGUE

Thank you Mr. Chairman. I ask that my complete statement be included in the record. My statement is presented to you on behalf of the Florida and Texas sugarcane growers and processors. Both Florida and Texas completed the harvesting of their 84–85 crop of sugar last week. However, the results of the harvest were materially different. Florida produced 1,412,000 tons of raw sugar which is the most ever produced in the state. This good harvest is attributed more to climatic conditions than any other factor. Even with this bountiful harvest, profits are almost non-existent due to increased costs of production. The minimum wage rates for harvesting has been increased 28.6% by the Labor Department over the last three years. Costs of inputs continue to accelerate. Unfavorable weather in Texas resulted in a short crop of 81,000 tons which is 70 percent of what was expected under normal conditions. Profits are non-existent and the growers will have to borrow money heavily to continue.

Florida's modern sugar industry is slightly over 50 years old. We are growing sugarcane on 371,000 acres, most of which is grown in an area called the Everglades Agricultural Area. This unique, rich, organic growing area is composed of highly fertile muck soils. The soil, together with our normally warm winters and excellent water control, makes Florida one of the best places to grow sugarcane in the United States.

The land is especially suited for sugarcane. Changing from sugarcane to some other alternative crop is really not a viable alternative for Florida. This area is a fairly large producer of winter vegetagbles, it should be noted that only a few thousand acres are devoted to winter vegetables. For example, this year 6,200 acres were devoted to the production of lettuce. Just a few hundred additional acres of lettuce would have completely demoralized this market. Obviously you can't run celery, lettuce and radishes through a sugarcane mill. The total investment in mills and equipment in the Florida industry represents over $1 billion worth of farm capital. Florida's industry employs approximately 10,000 people, not counting another 9,000 seasonal cane cutters from the Carribbean area. Of the 10,000 domestic jobs about 80% are unskilled or semi-skilled largely filled by members of minority groups. For many of these employees their job in sugarcane production is the job of last resort as they would have no place to find employment if there was no sugar industry.

Our Texas sugarcane industry is located in the Rio Grande Valley area of Texas and has one mill and 96 growers. The sugar growing and processing employs 600 people on year-round basis and 450 part-time workers.

The Florida and Texas sugarcane industries are efficient and are so recognized by knowledgeable sugar experts.

Mr. Chairman, the sugar provisions included in the 1981 Farm Bill have provided a simple, no-cost to the government program which has been good for consumers and users of sugar and have saved American capability to produce from 2/3 to 3/4 of our sugar needs. While not guaranteeing a profit even to the most efficient farmers, the program has enabled most growers and processors to have hope for the future while barely keeping their farms and mills in operation. Many farms and mills have ceased to operate because of the unprofitability of sugar production and processing.

I call your attention to this in order that you might know the real truth instead of the false, unsubstantiated statements made by opponents of the program that the loan rate is too high. The price for sugar during the three years of the program has been less than it was for the two years preceding the program. (See Chart 1). Yet the same opponents who falsely claim that the loan level guarantees a profit have at the same time materially increased the prices for sugar-containing products resulting in greater profits, 75 percent of the sugar used in the United States is consumed in manufactured products. The manufacturers of these products, and refiners, most of them large corporations, complain loudly about cane and beet farmers and processors while going merrily on their way to bigger and bigger profits. For example, in a survey of 1,000 US companies by Forbes Magazine, the soft drink bottling industry, as a group, had the highest return on equity, a common method of determining the profitability of a company, for the last five years of any industry and a refiner of raw sugar was the leader in the food commodity group. (See Chart 2).

Mr. Chairman, if the price of sugar has been less for three years than for the two years before the program and the prices for soft drinks, ice cream, candy, cookies, etc are higher (See Chart 3), then you must conclude that either: (1) the consumer is being "ripped off" because of higher profits for the manufacturers or (2) other ingredients—not sugar—are the cause of the increase. In fact, the drop and subsequent leveling-off in sugar prices may have helped hold down even higher price increases. It is a supreme irony to me that, when we had the two previous run-ups in sugar prices in 1974 and 1980, users of sugar raised prices, proclaiming the reason to be the increased cost of sugar in their products. However, when these previous run-ups were followed by precipitous drops in the price of sugar, no mention was made of the lower cost of sugar, and the manufacturers of sugar-containing products continued to raise their prices.

Mr. Chairman, food is a better bargain in the United States than any other country in the world even with some food manufacturers, processors and handlers making tremendous profits. The American sugar farmer's contribution to cheap food is illustrated on Chart 4. In the United States a worker has to work less minutes to buy a pound of sugar than in any other country in the world where records are kept. Less than 1½ minutes of work required to buy a pound of sugar in the United States. Contrast this with Common Market Countries where the average is almost 5 minutes and in some Central and Souther American countries where sugar is produced it is as high as 20 to 30 minutes. Sugar is a good buy in the United States!

Sugar could be an even better buy if the refiners and marketers would reduce their margins to normal levels. Refined sugar was selling in grocery stores in Clewiston last Thursday at an average of 31.2 cents per pound. The refiner who made that sugar probably purchased it 3 or 4 weeks ago at 20.5 cents per pound. The difference was 10.7 cents per pound. That difference went to the refiner, wholesaler and retailer.

The current loan rate is 17.75 cents per pound. This is divided between the grower and processor on an approximate two-thirds to one-third basis. Therefore, the grower receives approximately 12 cents and the processor 6 cents. This is their total return for planting, cultivating, harvesting and grinding. So you can see that the return to those handling the sugar after it leaves the warehouse is about the same as received by the grower, and much more than that received by the processor. Their time and investments are much lower than the grower and processor and returns are greater.

I believe it would be of interest to this committee to show the spread between the raw sugar price, the wholesale refined price and the average U.S. retail price going all the way back to 1973. Chart 5 attached, shows that when the price escalated materially in 1974–75, the refiners and retailers increased their margins. When the price escalated again in late 1979 and 1980, the refiners briefly narrowed their margin, while the retailers' margins were narrowed more drastically. But as the price peaked and continuing from 1980 to present, the refining and retailing margins have increased to the point where their returns are almost as much or greater than the returns to the grower or processor.

I have two other points. First with regard to our friendly trading partners in the Caribbean Area. I recently heard a Member of the House lament the problems brought upon that group of countries by our Sugar Program. Of course, he used data that would try to prove his point. I will now refer to Chart 6 which outlines the correct information for Caribbean Basin Countries. Please note the following pertinent facts:

In 1979, they shipped 1.8 million tons of sugar to the United States with a Customs Value of $344 million.

In 1980 and 81 prior to the program, they shipped an annual average of 1.65 million tons for $519 million.

For the past two years, 1983–84, while the U.S. Sugar Program has been in full operation, they shipped an average of 1.2 million tons with a value of $439 million.

That theoretically leaves them with 450,000 tons (difference between 80-81 average and 83-84 average) to sell for whatever price they can get for it.

They are receiving a premium for quota sugar shipped to the U.S. of almost $280 per ton over what they could receive if shipped elsewhere.

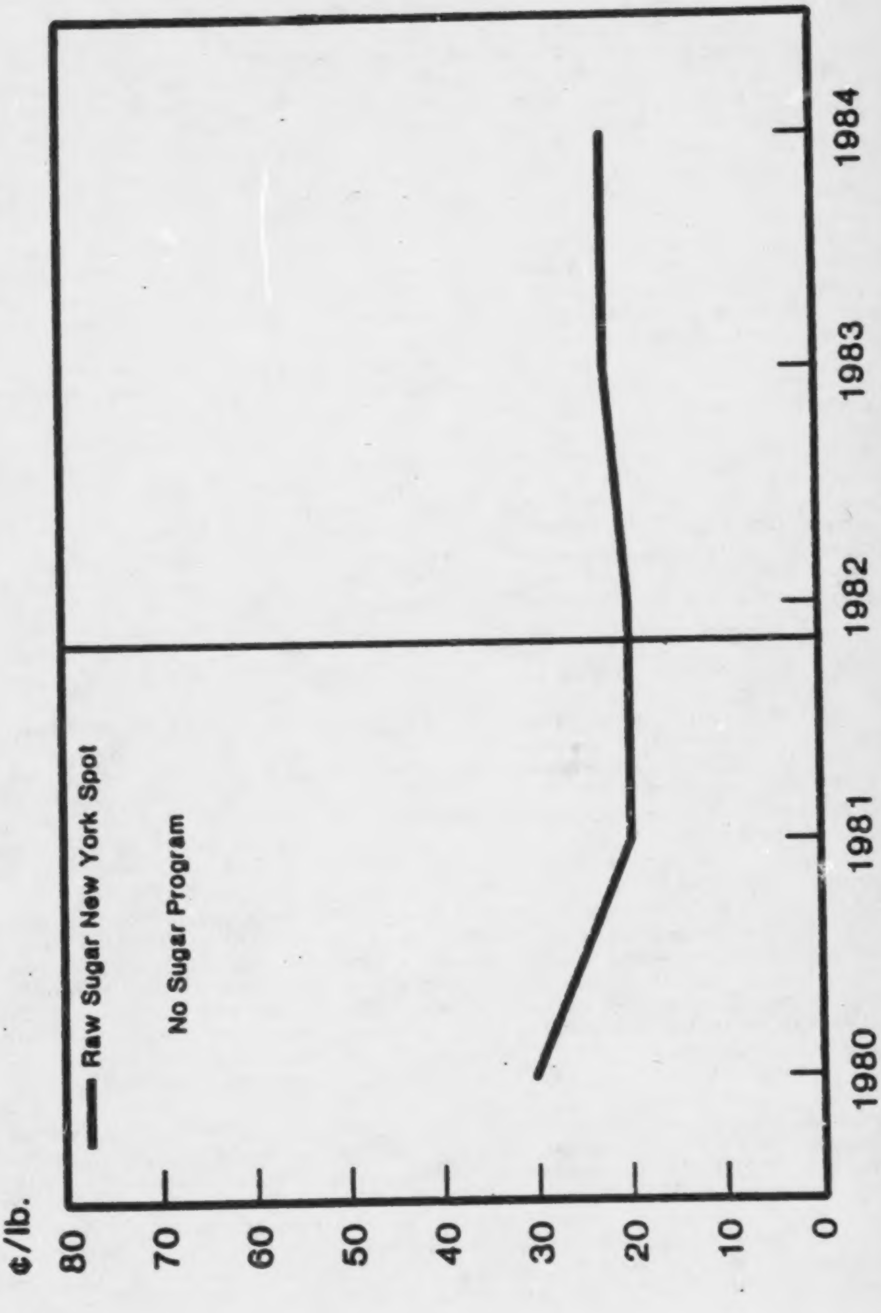
My second point is to try to outline briefly the real problem for sugar growers worldwide and refute the unfounded and malicious charge that the sugar program costs consumers an assumed amount of money. Opponents of the domestic sugar industry cite potential savings available to U.S. consumers based on what they call "world sugar prices." They fail to state that the low prices they call "world sugar prices" represent a small, highly volative residual market. While total world sugar production is currently almost 100 million tons per year, 75 percent of that quantity is consumed in the country of origin at prices generally set by the local government. The balance is available for export but roughly one-half of that quantity is traded under preferential or special arrangements such as the Cuban-Russian barter agreement. Sugar is produced in practically every country in the world and all countries have a sugar subsidy of some form or another.

Only 12 to 13 million tons of sugar a year are traded in the very thin residual, or "dump" market. Actually it has nothing in common with a quote "free world market" unquote. Depending on supply and demand, this "dump" market can be driven to great excesses. In 1974, prices rose to 65 cents per pound in a market perceived to be short of sugar, fell to 6 cents per pound in 1978, rose to 43 cents in 1980, and currently are under 4 cents per pound. The International Sugar Agreement tried to stabilize prices through a system of import and export quotas. The non-intervention zone or the desired price range agreed to in 1981 called for prices between 17 and 21 cents per pound FOB Caribbean. In point of fact, this price was only achieved for 60 days during the almost 8-year existence of the Agreement from 1977 through 1984. Is this kind of price volatility in the best interest of U.S. consumers?

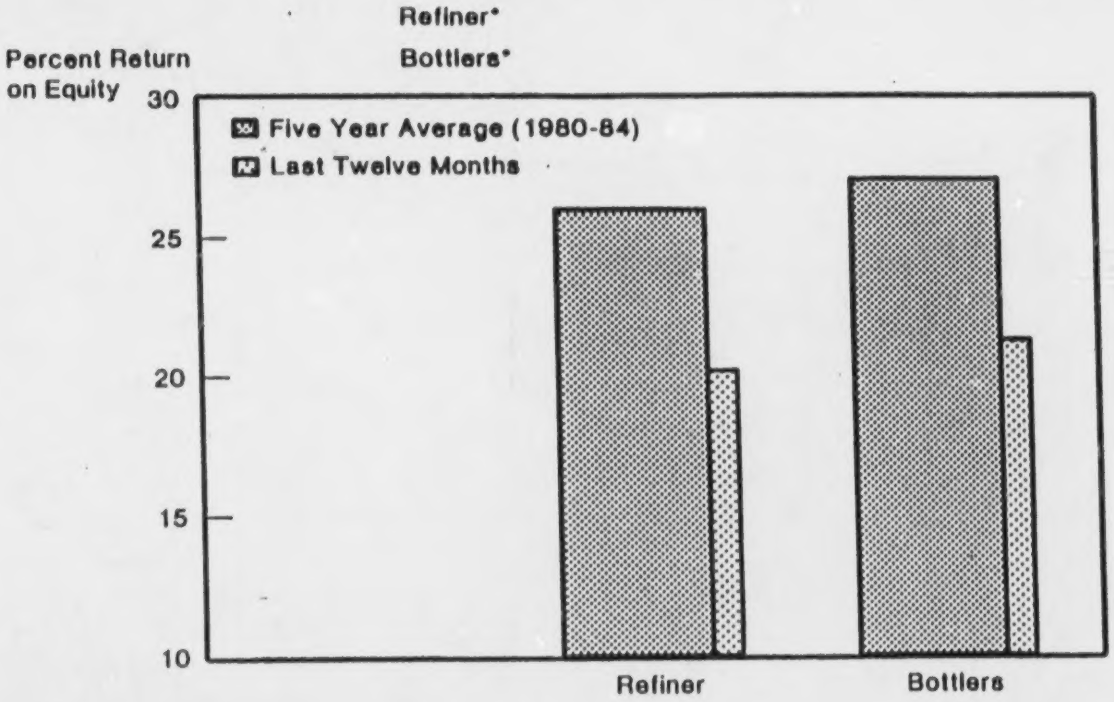
Incidentally, I might add if the ISA non-intervention range was appropriate in 1981, I call your attention that the current sugar support price is near the low end of that range.

If the domestic sugar program were to be eliminated or the loan level lowered, the major beneficiary would be the European Economic Community. Through a system of subsidies they have increased their production from 9.2 million tons in 1974 to as high 15.5 million tons in 1982. From a net importer of sugar in 1976, they have become the largest exporter in the world. This year they will have 4 million tons of sugar available for export or roughly one-third of the world free market demand. European farmers were reportedly receiving 26.7 cents per pound for their production in 1982 while the EEC was dumping their surplus production at prices below 6 cents per pound, 65 to 70 per cent of the EEC budget is dedicated to agriculture price supports and over 10 percent of that sum, 1.5 billion European currency units, goes for their sugar program. Lowering U.S. loan rates at this time would represent a major victory for the EEC policy of dumping would ultimately reward them for the chaos their policies have created for producers everywhere.

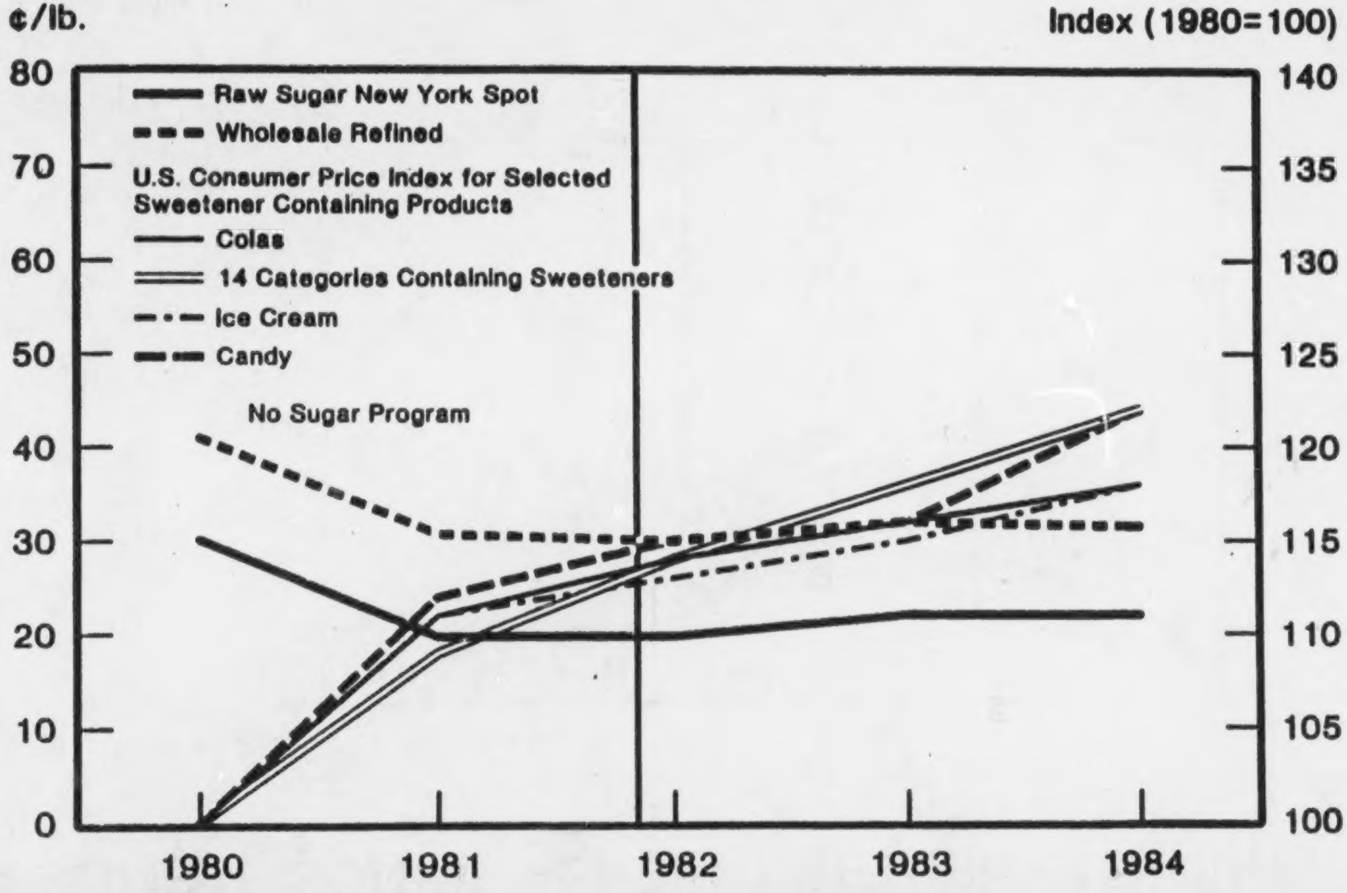
Mr. Chairman, I have heard that many of the opponents of the sugar program are now saying they do not wish to eliminate the program but merely want to reduce the loan rate. To me, that is about like the fisherman preparing to clean a catfish—while trying to keep him still, he remarked—"Be still—all I'm going to do is gut you." Seriously, this proposal needs to be exposed for what it is. Simply a means to increase the profits of the now profitable refiners and users of sugar. I challenge them to tell you the and the public the cents value of sugar in each of their products and to pledge to you something they have refused to do in the past—that is—that they will reduce the price of their products and by how much if the loan rate is lowered. Since the sugar program is erroneously charged as costing consumers an outrageous amount of money, maybe you should include a provision in the sugar section tying the price of sugar-containing products to the price of sugar.


¢/lb.
80
70
60
50
40
30
20
10
0
1980
1981
1982
1983
1984
Raw Sugar New York Spot
No Sugar Program

COMPARISON OF PERCENT RETURN ON EQUITY



Source:
*Forbes Annual Report or American Industry


¢/lb.
Index (1980=100)
80
70
60
50
40
30
20
10
0
140
135
130
125
120
115
110
105
100
1980
1981
1982
1983
1984
Raw Sugar New York Spot
Wholesale Refined
U.S. Consumer Price Index for Selected Sweetener Containing Products
Colas
14 Categories Containing Sweeteners
Ice Cream
Candy
No Sugar Program

MINUTES OF LABOR REQUIRED TO EARN ENOUGH MONEY TO PURCHASE ONE POUND OF SUGAR:

	COUNTRY	MINUTES		COUNTRY	MINUTES
1.	United States	1.47	19.	Malaysia	9.4
2.	Canada	2.06	20.	Turkey	10.4
3.	Australia	2.30	21.	Taiwan	13.0
4.	Japan	2.40	22.	Yugoslavia	13.1
5.	United Kingdom	3.10	23.	Mexico	13.76
6.	Netherlands	3.40	24.	Argentina	16.0
7.	Sweden	3.50	25.	Dominican Republic	18.7
8.	Italy	3.52	26.	Brazil	20.0
9.	France	4.00	27.	USSR	25.1
10.	West Germany	4.40	28.	Peru	35.0
11.	Switzerland	5.00	29.	Poland	36.0
12.	Spain	5.26	30.	Colombia	46.0
13.	Denmark	6.30	31.	Thailand	47.0
14.	East Germany	6.35	32.	Austria	54.7
15.	South Africa	6.40	33.	Pakistan	55.0
16.	Belgium	6.47	34.	India	60.0
17.	Finland	7.80	35.	China	74.0
18.	Ireland	8.00			

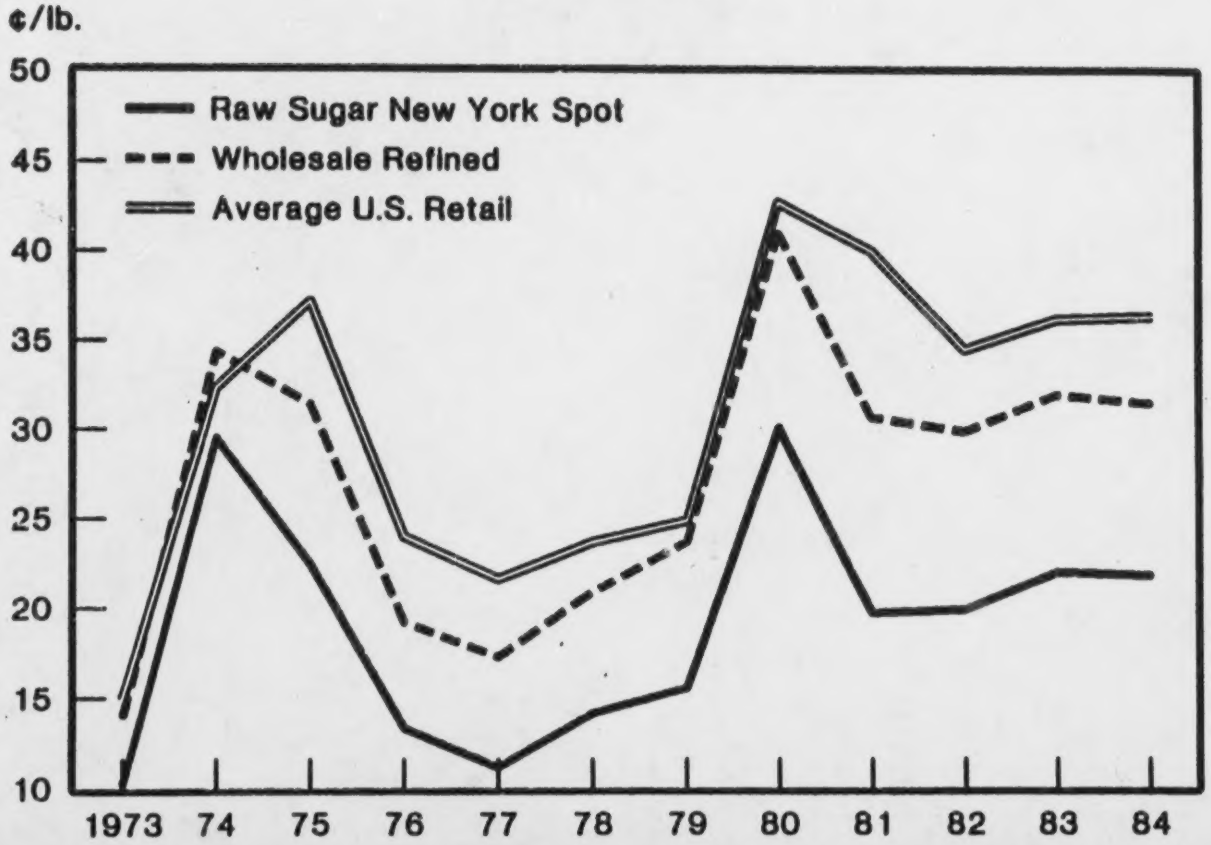
BASED ON PRICE OF SUGAR AND WAGE RATES FOR EACH COUNTRY

SOURCE USDA & USDL

SALES OF SUGAR TO THE UNITED STATES FROM CARIBBEAN BASIN COUNTRIES AND BENEFITS RECEIVED BEFORE AND DURING OPERATION OF CURRENT UNITED STATES PROGRAM:

CBI Sugar shipments to the U.S. (000 strv)	1979	1980	1981	1982	1983	1984
	1,776	1,536	1,475	915	1,199	1,173
Customs Value ($000)	344,351	693,789	671,201	278,383	428,806	448,395
Customs Value (¢/lb.)	9.69	22.58	22.75	15.21	17.88	19.14
ISA World Price	9.65	28.66	16.89	8.40	8.46	5.18
Premium on sales to U.S. ¢/lb	.04	(6.08)	5.86	6.81	9.42	13.96
total ($000)	14,208	(186,777)	172,870	124,623	225,892	327,502

1973-1984


¢/lb.
50
45
40
35
30
25
20
15
10
1973
74
75
76
77
78
79
80
81
82
83
84
Raw Sugar New York Spot
Wholesale Refined
Average U.S. Retail

TESTIMONY OF DALTON YANCEY, HEARING OF THE SUBCOMMITTEE ON COTTON, RICE, AND SUGAR, JOHN B. BOY AUDITORIUM, CLEWISTON, FL, MARCH 25, 1985

Mr. Chairman and members of the subcommittee: My name is Dalton Yancey and I am executive vice president of the Florida Sugar Cane League. The Florida Sugar Cane League is the industry association representing the growers and processors of sugarcane in Florida.

On behalf of the Florida sugar industry, I want to thank you for coming to Clewiston to hear testimony concerning the sugar program which was contained in the 1981 farm bill and our views of how that program has worked. Specifically, I want to express our industry's appreciation for your taking the time to come to Florida's sugar industry to see and hear first-hand our industry.

We are very proud of the Florida sugar industry. Just a few days ago we finished harvesting the largest crop of sugarcane in Florida's history, despite a hard freeze in January. During the 156 days of the 1984-1985 harvesting season, Florida's 140 sugarcane growers harvested over 13 million tons of sugarcane, which the seven sugar mills in Florida ground and manufactured into 1.3 million tons of raw sugar, making Florida the number one sugar producer in the United States.

While this is a record crop for the State of Florida, it certainly did not produce a record profit. All of the farmers and mill operators in Florida have had to economize and grind up to their capacity in order to lower unit costs. We believe we have made great strides in efficiency, but most all of our farmers and mill operators are caught in a price squeeze between faster rising costs than income.

Florida's modern sugar industry is slightly over 50 years old. We are growing sugarcane on 371,000 acres, most of which is grown in an area which is called the Everglades Agricultural Area. This unique, rich, organic growing area is composed of highly fertile muck soils which produce some of the best sugarcane in the world. The soil, together with our normally warm winters and the fact that the area has, under normal conditions, excellent water control, coupled with the progressive farm and mill management, makes Florida one of the best places to grow sugarcane in the United States.

The land is especially suited for sugarcane. Although this area is a fairly large producer of winter vegetables, it should be noted that only a few thousand acres are devoted to winter vegetables. For example, this year 6,200 acres were devoted to the production of lettuce. Just a few hundred additional acres of lettuce would have completely demoralized this market. In other words, the prospects of turning from sugarcane to some other alternative crop is really not a viable alternative for this industry. Obviously you can't run celery, lettuce and radishes through a sugarcane mill. The mill and the production equipment used to grow and harvest sugarcane is extemely specialized and capital intensive. The total investment in mills and equipment in the Florida industry represents over $1 billion worth of farm capital.

Assuming that the Florida crop is sold at the Market Stabilization Price of 21.57 cents per pound, Florida's crop will bring revenue of over $600 million, including molasses, which will have an economic impact on the State of Florida of over $1,350,000,000. Clearly, Florida's sugar industry is one of the basic components of Florida's economy. In addition to the jobs which the industry directly creates on the farms and in the mills, the University of Florida in an economic impact study has indicated that Florida's sugar industry is responsible for over 40,000 jobs. In fact, in the Lake Okeechobee area where sugarcane is produced, our industry is the dominant economic force. This has tremendous impact not only in the towns where sugarcane is grown and produced, but up and down the East and West coasts of Florida, from Miami to West Palm Beach and Fort Myers to Tampa. For example, our industry makes purchases in the city of Miami alone of over $20 million in such wide ranging items as heavy equipment, batteries, electrical and hydraulic supplies, as well as legal and accounting services. The same example can be cited in West Palm Beach, Fort Myers, and Tampa.

Florida's sugar industry creates a favorable balance of trade for the State of Florida. Over 80 percent of all sugar produced in Florida is sold to refineries in other states, which means that the sugar produced in Florida bring dollars back to Florida, which are spent in the form of payroll to employees and the purchase of goods and services. If Florida's sugar industry were not to exist, the lake communities certainly would be devastated economically. But an economic chain reaction would also take place impacting the major population centers in south Florida as well.

Florida's sugar industry is Florida-owned and operated. Many times the cry is made of big corporations and conglomerates in farming. But Florida's sugar industry is owned and operated in Florida. For example, 43 percent of the stock of sugar is owned by their 2,600 employees; in effect, all of them are sugarcane growers. Atlantic Sugar Association and the Sugar Cane Growers Cooperative of Florida are both farmer-owned cooperatives owned by the family farms which compose them. Osceola Farms Company and Okeelanta Corp. are owned by families in Palm Beach County. Talisman Sugar Corp. is owned by the St. Joe Paper Co., based in Jacksonville.

Of the 10,000 year-round jobs in Florida's sugar industry, approximately 80 percent of those are unskilled and semiskilled workers who would not have other employment available to them if the sugar industry were not here. This means that without a strong sugar industry, several thousand employees and their families would be unemployed and would be a drain on the welfare system. Moreover, most of these semiskilled and unskilled workers are members of minorities.

Let me thank you again for coming to hear our views. I believe you will find during this hearing that Florida's industry is strong, efficient, progressive and a contributor and solid business citizen of the State of Florida. It it important not only to Florida's farmers and mill operators to continue a strong sugar program, but to the State of Florida as well. Our panel and our consultant, Horace Godfrey, will be happy to answer questions at the conclusion of our remarks.

STATEMENT OF JOHN E. THIBAUT, PRESIDENT, AMERICAN SUGAR CANE LEAGUE OF THE U.S.A., INC.

Mr. Chairman and Members of the Committee: My name is John E. Thibaut. I reside in Napoleonville, Louisiana. I grow sugar cane and I am president of a cooperative that processes sugar cane into raw sugar.

I am President of the American Sugar Cane League which is a non-profit trade association organized to protect and preserve the welfare of Louisiana sugar cane growers and processors. Our membership includes all 21 Louisiana raw sugar plants and over 97 percent of the more than 3,000 cane growers and landlords.

I appreciate having the opportunity to speak to you today on behalf of the Louisiana sugar cane growers and processors.

A sugar title was wisely included in the Agriculture and Food Act of 1981. The nonrecourse commodity loan program for sugar has worked extremely well for producers, consumers, and taxpayers. Import duties, fees, and quotas have been used to ensure the effectiveness of the program.

Since the program was put into effect, no loan sugar has been forfeited to the C.C.C., it has been simple to operate, and the program has not cost any tax money. In fact, the import fees and duties on foreign sugar have helped to reduce the federal budget deficits. Approximately $350 million has been collected in duties and fees on imported sugar in the last 3 years. In addition, sugar producers have paid about $37 million in interest on C.C.C. loans.

The sugar program has been anything but over-generous. Two Louisiana processing plants and a number of growers have been forced out of business by economic pressures since the 1981 farm bill was passed.

The Administration has proposed changes in the program that would complicate its operation, add to the federal deficit, and make it less likely to succeed. In a puzzling action, the administration proposes to move away from target prices for most commodities, while proposing what amounts to a new system of target prices for sugar. 1986 loan levels would be 12 cents per pound—a reduction from 1985 loan levels of 18 cents. The difference between 12 cents and the "established price" of 18 cents would be paid to growers by the government.

A limit of $200,000 per producer would be placed on C.C.C. nonrecourse loans. Loans beyond $200,000 per producer would be recourse. Such limits would complicate the program for no good purpose. The government faces little exposure under such loans unless it fails to maintain reasonable market prices or unless extraordinary business decisions are made.

The 1986 "established price" of 18 cents per pound would be cut 2 cents per pound for each of the years 1987, 1988, and 1989. In 1990, the "established price" would be 12 cents and for 1991 and thereafter, the "established price" would be 75 percent of the 3-year moving average of U.S. market prices.

If that program were passed tomorrow, no sugar cane would be planted in Louisiana this fall. Since our crop continues to produce for 3 years, some processing plants might continue to operate during 1986 and possibly in 1987. After that, the sugar industry would cease to exist. Over two centuries of Lousiana sugar producing history would come to an end.

Louisiana produces enough sugar to fill the needs of over 13 million Americans. Without Louisiana's production, these Americans would have to depend on unstable foreign sugar suppliers such as South Africa, the Philippines, Zimbabwe, El Salvador, and Haiti and other countries that you are aware of.

Although we speak only for Louisiana, I am confident that most, if not all, other U.S. sugar producers would be forced out of business by this proposal. By the end of this decade, the U.S. could be virtually dependent on foreign suppliers for our sugar needs and our balance of trade would slip farther into the red.

The sugar program has worked successfully for sugar producers. Just as important, however, is the fact that the program has helped consumers also. Consumers have a stable, close-at-hand, supply of sugar. The price of sugar has stabilized under the sugar program at a level that is fair to producers and consumers.

Without the program, U.S. consumers would be dependent on the wildly gyrating world sugar market. When prices shoot up, consumers are hurt. When prices are depressed, producers are hurt, but the consumers never really reap the benefits of low prices due to the "ratchet effect". Industrial sugar users increase the prices of their products as sugar prices go up, but do not reduce their product prices to the same degree that sugar prices are reduced. Consumers and producers suffer from the wild price swings, while the industrial users increase their profits. I still remember being able to buy a soft drink for 10 or 15 cents from a vending machine prior to 1974. When sugar prices rose in 1974, soft drinks in vending machines began to cost 25 cents, 35 cents, or even 50 cents. The increase was blamed on sugar prices. Even when sugar prices came back down, however, I didn't see the prices on those vending machines come down.

Stable supplies and prices are not conducive to the ratchet effect. If sugar prices are relatively stable, industrial users don't have a good excuse to increase the price of their product and they can't make windfall profits by keeping their product prices high as sugar prices fall. Therefore, the stable prices experienced under the sugar program help consumers.

If reduced sweetener prices really mean lower product prices, why do soft drinks sweetened with relatively cheap saccharin cost the same as those sweetened with the premium sweetener-natural sugar. This serves to show that pricing policies of industrial sugar users are not consistent with their arguments that consumers would get less expensive products if sugar prices were reduced.

Consumers have a vested interest in stable sugar supplies and stable sugar prices. They would not enjoy such stability under the Administration's proposed program or under the situation that existed for several years prior to the current sugar program. Consumers and producers would both be better off with continuation of the same type of program now in effect.

We currently have a program that is working efficiently and effectively at no cost to taxpayers. We strongly recommend that this program be continued, with reasonable improvements in the loan rate.

Thank you for your kind attention.

STATEMENT OF THOMAS V. FISCHER, EXECUTIVE VICE PRESIDENT, A.E. STALEY MANUFACTURING CO., ACCOMPANIED BY ROBERT C. LIEBENOW, PRESIDENT, CORN REFINERS ASSOCIATION, INC.

Mr. Chairman and members of the Committee: I am Thomas V. Fischer, executive vice president of A.E. Staley Manufacturing Company. I appear before you today on behalf of the Corn Refiners Association, Inc., and serve as chairman of its Committee on Agricultural Policy. I am accompanied by Robert C. Liebenow, president of the Association.

A list of our Association's membership is appended to my written testimony. The Association represents the nation's corn refining companies, producers of starches, sweeteners, feeds, oil and ethanol from U.S. corn.

Corn growers and refiners today are full partners in America's agri-technology development. In fact, corn refining is the only current growth market for U.S. corn farmers, at a time when market expansion is critical. Last year, our industry purchased nearly three-quarters of a billion bushels of U.S. corn, and by the end of the decade, we hope to be using a billion bushels or more.

Corn refiners today supply nearly 50 percent of all nutritive sweeteners consumed in the United States. Through intensive research and major capital investment, we have been able to save the nation's food and beverage producers billions of dollars.

Today, the same research teams who are responsible for the development of corn sweeteners are turning their attention to the emerging field of biotechnology, exploring products which may revolutionize the production of medicines, fuels, clothing and shelter. We have only begun to scratch the surface of these potential contributions to our economy.

However, Mr. Chairman, this remarkable progress could be stopped in its tracks, if the domestic sweetener industries are forced to enter a world sugar market which operates without regard to any economic rationale. For this reason, we would like to urge that the present sugar program be continued in the 1985 farm bill.

As pointed out earlier, the current sugar program has worked exactly the way in which it was designed. It has operated at no cost to the government, and has achieved the objectives established by Congress.

The program has enabled the domestic sugar industry to survive without encouraging expansion. In addition it has insulated corn growers and refiners from the dumping of highly subsidized world sugar. The sugar program has encouraged the continued move toward self-sufficiency in our sweetener supplies. In order to continue this trend toward self-sufficiency, it it vital that we maintain domestic sugar production, to serve the large market for dry sweeteners which cannot be produced from corn. And, from the standpoint of foreign nations which export sugar to the United States, the program has provided a premium outlet for sugar which would otherwise have to be sold at ruinous world prices.

Mr. Chairman, we in the corn refining industry are an advocate of free and fair trade. We would be glad to compete on a value basis with sugar from any nation. After all, we are the lowest cost sweetener producer in the world. However, we are neither willing nor able to compete with government-supported sugar producers who are encouraged to dump their production at prices which have absolutely no bearing to production costs.

If today's world sugar market were truly free, there would be no need for a U.S. sugar program. Studies have indicated that if the European Community alone ceased its export and production subsidies, the world price of sugar would rise above the levels in the current U.S. program. And, the EC is not alone in its subsidy practices. Virtually all of the world's sugar exporters employ numerous subsidy devices.

Opponents of our domestic sugar program focus their arguments on alleged adverse effects on consumers and on our trading partners.

The contention that the sugar program increases consumer costs $3 billion per year is based on simplistic mathematics, with no acknowledgment of the many complex factors which dictate how food and beverages are priced. In fact, due to greater use of high fructose corn syrup over the past four years, wholesale sweetener costs have actually declined. During this same period, prices for sweetener-containing products have risen by nearly 24 percent according to the U.S. Department of Agriculture. This no doubt reflects increased costs for labor, packaging, promotion and energy, among other things.

Regarding foreign trade, it is our contention that the sugar program has had two positive effects.

First, the program has created a premium market for our many long-time sugar exporting partners. This is especially important to lesser developed nations, critically dependent on sugar as a source of income. Studies have shown that Caribbean nations such as the Dominican Republic, Guatemala, Panama, Costa Rica and others have actually gained more than $300 million in export revenue as a result of the current U.S. sugar program.

Second, and most important, our sugar program has sent a clear signal to foreign governments: the United States will no longer permit its markets to be used as a dumping ground, its industries to be destroyed or its jobs lost to unfair competition. To weaken this signal would only encourage continuation of practices whose negative impact goes far beyond sugar—to damage every part of American agriculture.

Mr. Chairman, we strongly oppose the sugar provisions contained in the administration farm bill, S. 501, for two reasons.

First, the so-called "market orientation" contained in these proposals is simply an arbitrary reduction in the support level. Adoption of the administration's program would result in increasing reliance on foreign sweetener suppliers; it would reduce employment in the domestic sweetener industries; and it would shrink an important growth market for the U.S. corn farmer. We do not feel that these are results which Congress should endorse in farm legislation. Further, we are not convinced that adoption of this plan would enable the administration to lift import quotas.

Second, the administration bill contains target price provisions for sugar which have long been opposed by the corn sweetener industry. Although administration budget documents indicate that it is not their intention to utilize target price payments to support sugar producers' incomes, we oppose inclusion of the authority for such payments. Use of deficiency payments would give one domestic sweetener producer an unfair advantage over another. A target price program for sugar would emulate the practices of foreign nations, encouraging sale of domestic sugar below production costs. Sugar payment plans offered by previous administrations have not had the support of sugar producers, corn refiners, Congress or the courts, and we would urge that you reject this plan.

In summary, Mr. Chairman, we appreciate the opportunity to present these views, and we would be pleased to answer any questions you or the Committee might have. Thank you.

MEMBER COMPANIES, CORN REFINERS ASSOCIATION, INC.

ADM Corn Sweeteners (a division of Archer Daniels Midland Company), P.O. Box 1470, Decatur, Illinois 62525, plants: Cedar Rapids, Iowa, Decatur, Illinois, Clinton, Iowa, Montezuma, New York.

American Maize-Products Company, 41 Harbor Plaza Drive, Stamford, Connecticut 06904, plants: Hammond, Indiana, Decatur, Alabama, Dimmitt, Texas.

Cargill, Incorporated, P.O. Box 9300, Minneapolis, Minnesota 55440, plants: Cedar Rapids, Iowa, Eddyville, Iowa, Dayton, Ohio, Memphis, Tennessee.

CPC International Inc., International Plaza, P.O. Box 8000, Englewood Cliffs, New Jersey 07632, plants: Argo, Illinois, North Kansas City, Missouri, Stockton, California, Winston-Salem, North Carolina.

Hubinger (a subsidiary of H.J. Heinz Company), One Progress Street, Keokuk, Iowa 52632, plant: Keokuk, Iowa.

National Starch and Chemical Corporation, P.O. Box 6500, Bridgewater, New Jersey 08807, plant: Indianapolis, Indiana.

Penick & Ford, Limited (a division of PENWEST, LTD.), P.O. Box 428, Cedar Rapids, Iowa 52406, plant: Cedar Rapids, Iowa.

A.E. Staley Manufacturing Company, P.O. Box 151, Decatur, Illinois 62525, plants: Decatur, Illinois, Morrisville, Pennsylvania, Lafayette, Indiana (2), Loudon, Tennessee.

STATEMENT OF BIRCH BAYH, COUNSEL TO THE SUGAR USERS GROUP

Mr. Chairman, my name is Birch Bayh. I am appearing today in my role as counsel to the Sugar Users Group, a coalition of trade associations which includes the Milk Industry Foundation, the International Association of Ice Cream Manufacturers, the National Soft Drink Association, the American Bakers Association, the Chocolate Manufacturers Association of the U.S.A., the Biscuit & Cracker Manufacturers Association, and the National Confectioners Association. The member companies of these trade associations use about 70 percent of the sugar consumed in the United States. The Sugar Users Group also works closely with many other organizations, including the Cane Sugar Refiners, the Consumer Federation of America, Public Voice, and the Food Marketing Institute. Thus, we work in close conjunction with American industrial and individual consumers of sugar.

Recently, the American public has become more and more aware that there is real trouble down on the farm. However, those of us who have grown up in rural America have been concerned for some time. This concern is related, not only to the well-being of "farm folks," but also to what tragedy in rural American can mean to our entire country.

As you in Congress struggle with the problem, there is every indication that you, and the Administration, are assessing and reassessing the value of and reasons for each of the variety of agricultural programs which are now public law. We assume that you will also be concerned about the interrelationship of these programs and the impact each of these programs has, not only upon the specific groups of farmers involved, but also the impact each of the specific programs has upon two hundred million Americans and the overall well-being of our country as a whole.

We hope that you wil carefully analyze our present sugar program in this regard. It is with this goal in mind that we feel privileged and grateful to you for having the opportunity to share our thoughts with you today. Before going into specifics, I would like to set out certain basic principles which we believe should relate to all farm crop programs, sugar as well as others.

First, we believe that each farm program shoud be market-oriented. One of America's greatest strengths is our ability to produce food. No other nation in the entire world can equal our agricultural strength. This is an invaluable national resource and we should recognize it and use it economically and strategically. The key to success for U.S. farmers is expanding markets for their goods. Every farmer would rather sell his product for a profit on the free market than receive subsidies.

Unfortunately, some of our agricultural policies have contributed to making our agricultural products unattractive on world markets. In addressing the farm bill this year, I am sure that finding ways to promote exports will be one of the most important tasks that you undertake. We hope that you will consider the impact of the sugar program upon these efforts to expand world markets for our agricultural products.

As you know, our current sugar program is not market-oriented. Further, it stands in the way of developing foreign markets to their fullest potential for producers of other commodities. This is so because the program lessens the willingness and the ability of sugar-producing nations to import our agricultural products. Since the program was enacted in 1981, the strict import quotas employed to support domestic sugar prices have caused a 60 percent reduction in imported sugar. Further dramatic reductions can be expected if the sugar program continues on its present course. For many nations, sugar is one of the most important cash crops. Unless those nations can sell sugar to the United States, they can't earn dollars to buy our products. Further, the sugar quotas provide a very strong incentive for nations to retaliate against our products.

Let me illustrate this with an example. In 1981, Brazil exported 1.09 million short tons of sugar, valued at $388 million, to the United States. At the same time, it imported 3.9 million short tons of American wheat and corn, valued at $639 million. This year, Brazil will be permitted to ship only 368 thousand tons of sugar to the United States, valued at $145 million. If the import quotas on sugar cause that nation and other similarly situated nations to reduce imports of U.S. grain, as a retaliatory move or due to economic hardship, the American grain farmer will lose a very important market for his products and our efforts to promote exports of farm commodities will be stymied. In addition, the United States sugar program, which assists a relatively small number of American farmers, is utilized as a rationale by many other nations to deny access to their markets to the hundreds of thousands of American farmers who produce corn, soybeans and wheat.

Mr. Chairman, a second and very important principle we hope you will consider in your deliberations on this year's farm bill is the notion of consistency and equity in all our farm programs. We do not believe that our policy should discriminate in favor of or against any one commodity. Farmers should make the decisions as to which crops they grow based upon considerations of efficiency rather than government policy. Further, there should be equity in the treatment of farmers, no matter what crop they are able to produce.

Unfortunately, Mr. Chairman, the sugar program as it currently exists falls far short of this principle. Although there are less than 12,000 sugar producers in the United States, a mere handful compared to 446,000 wheat producers or 715,000 corn farmers and 511,000 soybeans farmers, we enacted a program in 1981 which discriminates very much in favor of the sugar producer and against those who produce other commodities. This has led to inequity and distortions in planting decisions. I urge the Committee to compare the returns to those farmers who grow sugar to the return of those farmers who grow other crops. For example, during 1982, in Minnesota and North Dakota, return over variable costs from sugar beets was $411 per acre, while the return for corn was $12 per acre. In Louisiana, return for sugar cane was $458 per acre, while the return for soybeans was only $69 per acre. We ask the Committee whether this is fair and whether it makes for good agricultural policy.

As a third principle, Mr. Chairman, we believe that agricultural policy should not place undue hardships upon the consumer or cause excessive economic distortions in our domestic economy. You will not be surprised, Mr. Chairman, to hear that we believe that the sugar program also is at odds with this basic principle.

The sugar program, based upon quotas, has been a tremendous burden on the consumer. A 1-cent rise or fall in the price of raw sugar results in a change of $257 million in the wholesale cost of caloric sweeteners in the United States and an impact of at least $300 million on consumers due to mark-up practices at the retain level and the price umbrella provided to HFCSs and low-calorie sweeteners. Further, the sugar program forces U.S. consumers to pay premium prices for sugar on both ends of the sugar-supply cycle. First, since support levels are often far above world values, as is the present case where the world price is less than 5 cents and the domestic price is just under 22 cents, consumers' food costs at retail are higher during surplus periods than they would be if prices were supported at lower levels or not all. Second, U.S. consumers also pay high world prices when sugar is scarce, since the U.S. program does not provide for storing reserves or for price guarantees which might provide protection against short supplies and high prices in other times. As you know, Mr. Chairman, the effect of this program is particularly burdensome to the poor who spend such a high percentage of their income on food.

Further, Mr. Chairman, sugar quotas are creating tremendous economic distortions in the United States. Because of high sugar prices, many food and beverage manufacturers have substituted corn sweeteners for sugar and sugar's share of the domestic sweetener market has declined by more than 30 percent. Thus, the U.S. sugar program is actually driving both U.S. and foreign sugar producers out of the sweetener market. At the same time, manufacturers of such products as chocolate find it difficult to compete with foreign products made from low-priced sugar obtained by foreign competitors in the world market. If the current sugar program is maintained, these manufacturers may have no alternative but to relocate their facilities outside of the United States, with the consequent loss of jobs and manufacturing capacity. In addition, cane sugar refiners are closing down one after another because they cannot get adequate supplies of raw sugar. Clearly, the sugar program is not only having an adverse effect on all consumers of sugar, but also is detrimental to segments of our economy which employ many more than the few thousand sugar producers which the program protects.

Finally, Mr. Chairman, we think it is an essential principle that the nation's agricultural policy not work at cross purposes with our nation's foreign policy. The current sugar program is contrary to the basic thrust of American foreign policy, particularly in Latin America and the Caribbean.

By enacting the Caribbean Basin Initiative and through direct foreign aid programs, the United States made a commitment to do everything in its power to stabilize the economies and political systems of our friends in the Caribbean and Latin American countries. We initiated these programs because it was in our overall national interest to do so. Yet, by decreasing sugar quotas our sugar program takes away benefits which the citizens of these nations can provide by their own labor more quickly than we can give them benefits from U.S. Government programs.

Carlos Despradel, Ambassador of the Dominican Republic to the United States, clearly described the problems created by the U.S. program. Commenting on recently reduced quotas, he stated in October 1984:

"This reduction surpasses in amount the benefits that my country received with so much enthusiasm barely one year ago, with the implementation of President Reagan's Caribbean Basin Initiative, which promoted the elimination of the import duties on sugar imports from the nations of this region. . . .

"Faced with this dilemma, I want to make the following observations: If no way is found to change the actual sugar policy, the protection of domestic sugar producers will result inevitably in the breakdown of sugar producers in neighboring countries like the Dominican Republic, with all the consequences that this could entail for the stability of the region. . . ."

To sum up, we believe that the sugar program should be market-oriented and designed in such a way as to promote the development of new markets for agricultural products. The program should be fair and equitable in the scheme of our other agricultural programs and not distort planting decisions made by farmers. The program should not create undue hardships for consumers or excessive economic distortions in the domestic economy. Finally, the program should not undermine our efforts to stabilize the economies and political systems of our allies in the Caribbean and Latin American nations.

Unfortunately, as the program is currently structured, it violates all of these principles. Farmers who grow crops other than sugar are finding it more difficult to export commodities because of the weakened condition of our sugar producing trading partners who do not have the dollars to buy our crops. Sugar producers are receiving an inequitably high rate of return for their crops compared to other farmers. Efficient domestic industries are jeopardized as high sugar prices have negated their normal competitive advantage. Important neighbors and allies who efficiently produce sugar are seeing the economic foundation of their countries shaken. Only the 12,000 sugar producers have benefitted.

Mr. Chairman, we believe the sugar program needs substantial reform. Rather than permitting loan levels to increase to 18 cents in October 1985, when our other farm programs are being cut back, we recommend that Congress reduce that level to 13 cents for the 1985–86 crop year. Over the following three years, we advocate reducing the loan levels further by 3 cents, 1 cent and 1 cent, respectively.

As I mentioned earlier, it will take at least a 7 cent reduction in loan levels for sugar to make the sugar program comparable to other farm programs. Additional reductions in the sugar loan level should roughly parallel future reductions in other programs which are currently being considered.

We believe these reductions should make it possible to eliminate import quotas in a relatively short period of time. However, I stress that American sugar producers would still be guaranteed a return on their sugar, which is many times the world price, for several years to come.

It should be emphasized that this proposal I make to you today does not eliminate sugar subsidies. It simply reduces those subsidies over a period of years and lessens the unfair advantage that sugar producers have had over those who produce other commodities.

I would add that there are other ways to achieve the goals of this proposal. Rather than simply adjusting the loan rates as we have suggested, it would be possible to set the market stabilization price in the law as well. One could also establish a deficiency payment scheme as the Adminstration has proposed. The critical need is to accomplish a significant reduction in sugar prices.

Mr. Chairman, if reform of the sugar program is enacted, the steady decline in our imports that we have experienced would be halted. Our Caribbean neighbors would be able to export more sugar to the United States and earn badly needed dollars. American industries which produce goods made from sugar would be in a more competitive position. More importantly, the reduction in the support level will save consumers approximately $1.5 billion in the first year alone.

Mr. Chairman, I have outlined many of the principles that the Sugar Users Group believes should be embodied in this year's farm bill. The current sugar program enacted in 1981 is at cross purposes with all of these principles. We believe it is time to overhaul the sugar program by enacting equitable, market-oriented sugar program for the future. We hope you will give careful consideration to the proposals we have made.

STATEMENT OF DR. RONALD D. KNUTSON, AGRICULTURAL AND FOOD POLICY CENTER, TEXAS A&M UNIVERSITY, ON BEHALF OF SUGAR USERS GROUP

My name is Ron Knutson. I was retained by the Sugar Users Group to conduct an analysis of the impacts of the current sugar program and its alternatives on the various segments of the sugar industry. I also hold the position of professor in the Agricultural and Food Policy Center in the Department of Agricultural Economics at Texas A&M University. Participating with me in the analysis were Dr. Andy Schmitz, professor of agricultural economics at the University of California at Berkeley; and Mr. Tom Earley, a partner in the consulting firm Abel, Daft, & Earley. The purpose of my testimony is to present the results of our analysis.

The most important finding of this analysis is that while past sugar programs were undoubtedly well intended, they are destroying the sugar industry. The stark reality is that sugar has become a declining industry, largely as a direct result of past sugar problems. While the total demand for sweeteners has remained stable at approximately 120 pounds per capita, sugar consumption has declined from a high of 102 pounds in 1972 to 71 pounds in 1983. In the meantime, corn sweetener consumption has more than doubled from 21 to 52 pounds per capita. Sugar now has less than half of the total sweetener market, compared with 83 percent in 1963. Most of the increase in corn sweetener consumption—and thus the decline in sugar consumption—has been a consumer reaction to the high price of sugar.

The high U.S. price of sugar is largely a result of government policy that supports the price at a level that is currently about four times the world price. The support level for raw sugar is about 7 cents/pound higher than the cost of HFCS, which is in its refined form, so you can see that the cost advantage for HFCS is enormous. The result is a strong economic incentive to subsitute HFCS for sugar in a wide range of food products. Soft drink manufacturers have converted virtually 100 percent ot the use of corn sweeteners and increasingly to noncaloric sweeteners. While it is sometimes suggested that HCFS conversion has nearly reached its limit, this is wishful thinking. As long as there is a substantial price differential between sugar and corn sweeteners, food manufacturers will continue to seek to substitute HFCS for sugar. A continued high HFCS-sugar price differential also increases the incentives for further product innovation such as the formation of a competitively priced crystalline HFCS. The technological innovation permitting the production of HFCS, which could have resulted in a much lower sugar price, has never been realized by American consumers. We have, by public policy, given the entire savings to the refiner of HFCS.

SUGAR POLICY CONFLICTS

Sugar policy represents a marked departure from, and often conflict with, other agricultural, trade, and foreign policy initiatives.

Agricultural policy conflicts

The approach to sugar policy is radically different than that pursued with respect to most other commodities. Most other commodities employ a target price as a means of providing income support separate from price support. When the market price falls below the target price the government makes up the difference in the form of a deficiency payment. Sugar has no target price. Instead, the loan rate, in conjunction with the quota, is used to support both price and income.

While the target price has generally been set on the basis of the cost of production, the return above variable cost for sugar is substantially higher than for other commodities in the most efficient producing regions. For example, during 1982 in Minnesota and North Dakota the return over variable cost from sugarbeets was $411/acre, while corn return was $121/acre. The price of sugar could be lowered about 7 cents per pound to achieve equal returns. In Louisiana the return to sugarcane was $458/acre, while the soybean return was $69/acre—again roughly 7 cents higher per pound of sugar.

The loan rate for most crops is set on the basis of the world price. The sugar loan rate is currently about three times the world price. The loan program for other crops also acts as a source of commodity reserves. In sugar, overt incentives are provided to prevent the government from holding reserve sugar stocks. Other crops use voluntary production controls when surpluses develop.

Trade policy conflicts

Trade expansion is a major objective of farm policy. Sugar policy conflicts with the achievement of that objective. One of the keys to expanding trade is the elimination of barriers to trade. Sugar quotas run counter to principles of free trade. Quotas have been used to raise the price of sugar to the support level and to prevent the build up of excess supplies. As sugar consumption has fallen it has become necessary to further restrict import quotas to maintain the mandated price support level. Therefore, the decline in the sugar consumption has been largely at the expense of foreign country suppliers of sugar.

These foreign country suppliers of sugar are important trading partners of the United States. While the United States buys about $2 billion worth of sugar, in 1983 the sugar supplying countries bought $6.6 billion of U.S. agricultural products and $23 billion of nonagricultural products.

The EC sugar subsidies are extensively criticized for suppressing the world price. However, U.S. sugar policy has precisely the same effect by fostering HFCS production and denying sugar producing countries a market for sugar.

Foreign policy conflicts

Conflicts over trade policy contribute to tensions between countries that extend beyond issues of trade. Likewise, trading preferences may be extended to countries for reasons that transcend the increased commerce expected to result from it. The foreign country suppliers are strategically important to the United States in a foreign policy context. Most are Third World countries whose development is heavily dependent on sugar exports. Many are participants in the Caribbean Basin Initiative designed to encourage development and stability in a region vitally important to the United States.

The Caribbean Basin initiative was designed specifically by the Reagan Administration to aid in the economic development and political stability of the countries in this strategically important region. The Caribbean Initiative is meaningless if the designated countries are unable to export to the United States.

LESSONS FROM THE PAST FOR THE FUTURE

Because of the substitution of HFCS and noncaloric sweeteners for sugar, a continuation of the current policy could lead to a zero quota as early as 1990. As the quota becomes smaller, its ability to support the price of sugar becomes increasingly tenuous. Once the quota reaches zero, it is obviously no longer useful as a price support tool.

Without the sugar problem, sugar consumption would have been 50% larger than it is today. A viable sugar industry could have been maintained using the same program concepts as in other commodities without a reduction in either imports or production.

Principles for developing future sugar policy

The basic premise of this study is that sugar policy should be neutral and even handed. Consistent with the need for such a policy, the following criteria for the development of sugar policy can be specified:

Sugar policy should not overtly create distortions in the allocation of resources among agricultural commodities. Returns to sugar should approximate those obtained from other crops in the same production area as long as each of the crops can be efficiently produced.

Likewise the prices of sugar should not be maintained at a level that creates distortions in consumption. It is counterproductive to maintain a sugar price that inevitably displaces the market for sugar with corn sweeteners at the ultimate expense of both sugar producers and consumers.

Sugar policy should be developed from the perspective of the long-run interest of the industry—its producers, manufacturers, users and consumers—not from the short-run interest of a particular industry segment.

It is in the long-run interest of U.S. agriculture to expand trade. Domestic farm policies should not interfere with that objective. If income production is judged necessary over and above competitive market prices, it should be provided in the form of direct government payments where the costs of sugar programs are clearly evident to the public.

Likewise, domestic farm policies should not interfere with foreign policies that are designed to encourage the economic development of friendly nations and thereby foster trade and national security in the long-run.

Current sugar policy fails on each principle

Each of the sugar policy options evaluated would be a marked improvement over the current sugar program. Our analysis indicates that the current sugar program fails the test in terms of each of the premises for policy development. Returns to sugar are substantially higher than for other crops. Sugar prices are maintained at a level that overtly encourages HFCS production. While in 1983 sugar producers received $1.3 billion annually in benefits from sugar policy, HFCS producers received $1 in benefits. In 1985 HFCS benefits may actually exceed sugar producer benefits. Consumers pay $3.7 billion in higher sugar costs. High foreign supplier benefits are being rapidly eroded by increased HFCS consumption and reduced import quotas.

CONCLUDING COMMENT

The most important point in the 1985 sugar policy debate is the need for sugar producer and policymaker understanding of the high costs and the adverse consequences of continuing the current high price support policy. While sugar producer interests might ignore the adverse effect on developing countries, they cannot ignore the longer-run consequences of sugar policy for overall sugar demand.

STATEMENT OF ROBERT W. DELAUTER, REPRESENTING THE NATIONAL SOFT DRINK ASSOCIATION

Mr. Chairman, my name is Bob Delauter, and I am a Coca-Cola bottler from Portland, Indiana, and the past Chairman of the Executive Board of the National Soft Drink Association on whose behalf of I appear before you today. The National Soft Drink Association greatly appreciates the opportunity to testify at this hearing in regard to the sugar program, and we thank you for allowing us to appear before you today.

The National Soft Drink Association is the major trade association representing the soft drink industry in the United States. The vast majority of the approximately 1500 U.S. soft drink bottlers are members of the Association, and account for over 90 percent of all of the soft drink produced in this country. In addition to the soft drink bottlers, NSDA also represents the franchise companies who produce the concentrate and syrup that are ultimately turned into finished soft drinks. The soft drink industry is the largest user of nutritive sweeteners in the world.

NSDA is a member of the Sugar Users Group (SUG) which is a coalition of trade associations representing industries which use vast amounts of sugar. You have already heard the testimony of the SUG representative, and I wish to state that NSDA completely endorses that testimony.

I am appearing before your Committee today not only to indicate our support for the Sugar Users Group's position but also to underline the soft drink industry's concern about the sugar program and the impact it has had on both our industry. The beverage industry has historically been both the largest and fastest growing industrial user of sweeteners.

Mr. Chairman, it is no secret that sugar is a declining industry. While total demand for sweeteners has remained stable at approximately 120 pounds per capita, sugar consumption has declined from a high of 102 pounds in 1972 to 71 pounds in

1983. In the meantime, corn sweetener consumption has more than doubled from 21 to 52 pounds per capita. Sugar's share of total sweetener consumption declined from 83 percent in 1963 to 53 percent in 1983. During the same time period, corn sweeteners' share increased from 12 percent to 39 percent while the share of low-caloric sweeteners increased from 3 percent to 7 percent. In the future, further market share increases are anticipated in both corn and non-caloric sweeteners. Increases in real income for the American population favor more convenience-food consumption and more away-from-home consumption. Increased concern about weight control and the aging of the population favor more non-calorie sweetener consumption. The potential for commercialization of crystaline fructose as well as the development and approval of a host of low-calorie sweeteners could further shift the demand given the right economic incentives. Most of the increase in corn sweetener consumption and thus the decline in sugar consumption has been a consumer and user reaction to the high price of sugar.

One need only look at my industry to demonstrate this point. The growth in high fructose corn syrup (HFCS) use is largely the result of shifts in sweetener use by the beverage industry in response to high sugar prices and technical improvements in HFCS quality.

Soft drinks present an excellent medium for a wide range of sweeteners with fewer technical limitations than other industrial uses. The beverage industry has become a strong growth market for non-caloric sweeteners with the approval of aspartame.

We believe that the dramatic growth rate in the use of HFCS seen in the past will not occur after 1985. Recent announcements by The Coca-Cola and PepsiCo, Inc., allowing the use of up to 100 percent HFCS in their colas virtually completes the conversion of the soft drink industry to HFCS after using as much as 2.16 mst of refined sugar as recently as 1980. The future major sweetener growth area will undoubtedly be in non-caloric sweeteners. Since their potential is greatest in the soft drink market, non-caloric sweeteners will probably gain largely at the expense of HFCS.

The current sugar program has succeeded remarkably well in creating high prices and in providing a subsidy for the sugar producers. Sugar is currently selling at about 22 cents per pound in the United States, over 4 times the 5-cent price on the world market, but the cost to American consumers has been tremendous. It is also ironic that this program, designed to protect a handful of farmers growing sugar in the U.S. from foreign subsidized sugar, has resulted in driving its largest and best customer, the soft drink industry, into the arms of the domestic sugar industry's greatest competitor, the corn sweetener industry.

Mr. Chairman and members of the Committee, I would ask you to think for a moment as to who will be the customers of the domestic sugar industry once the corn refining industry develops the technology to economically produce crystaline fructose. I would submit that they will have no commerical customers, and our current sugar support program, designed to allow the domestic industry to stay in business, will in the end have caused most of the sugar users to shift to other sweeteners.

The Federal Government has used quotas, duties, and import fees to keep U.S. sugar prices above specified levels. This floor on the U.S. sugar prices has subsidized domestic sugar producers and provided an effective pricing umbrella for producers of other sweeteners, including HFCS and non-caloric products. The rise of the corn sweetener industry provides an excellent illustration of how price incentives have distorted the structure of the entire sweetener industry. Initially fostered by high sugar prices during the mid-1970's and early 1980's, the price advantage of HFCS products has been consistently protected by high sugar price supports. Corn sweeteners now enjoy a market share that is nearly identical to sugar. For years to come the corn sweetener revolution will be used as a classic example of a failure in government policy.

Much has been made of the importance of the wet milling industry as a market for U.S. corn producers. In fact, it in total represents only 4 percent of U.S. corn production. Corn exports still account for 7 times as much corn disappearance as does HFCS. Exports are the single most important factor in our agricultural economy. How can we impose sugar quotas and argue against unfair foreign trade barriers of other nations to which we seek to export our farm products?

We at NSDA are interested in seeing a healthy HFCS industry now and in the future. The HFCS industry will not be put out of business by SUG's proposed change in sugar policy. Once commodity processing capacity is built, it will be operating as long as it is possible to cover variable costs. Fortunately, the cost of producing HFCS is very low.

Total cost of producing the 55 percent fructose product averaged only 16 cents on a dry basis in 1984, and this for a sweetener that is the equivalent of refined sugar, not raw sugar. Variable costs averaged about 11 cents but should be nearer 10 cents in 1985, due to a projected decline in net corn costs of about 1 cent.

What this means is that HFCS-55 prices would have to be driven below 10 to 11 cents per pound f.o.b. before wet millers would cease production. For this to occur, one would have to see f.o.b. prices for refined beet and cane sugar decline to 11 cents and 12 cents respectively. The domestic price for raw sugar (No. 12 contract basis) would, therefore, have to fall to 7.5 cents per pound before wet millers not to be able to cover variable costs.

Mr. Chairman, the proposal that the Sugar Users Group and the National Soft Drink Association support would not result in sugar prices declining anywhere near the above mentioned levels. In fact, if the SUG proposal were enacted, one would see f.o.b. prices for refined beet and cane sugar at a level of 17 cents and 19 cents respectively beginning on October 1, 1985. The domestic price for raw sugar would be 14 cents for the same period.

Sugar prices at this level, as stated in the SUG testimony, would bring the sugar support program in line with the support programs for corn and soybeans and would not result in a negative impact on corn growers. Even if the U.S. sugar price support umbrella were lowered enough to push HFCS prices down between total and variable costs, the companies involved in corn wet milling might become less profitable, but the volume of corn processed would not change significantly.

Mr. Chairman, I find it rather amazing that at a time when the government is seeking to deregulate the economy, to remove barriers to competition, and to reduce special privileges and subsidies across the board, the sugar program is accomplishing just the opposite. It provides a bonanza for a very few producers, and this very small group of producers has extracted a price from the government which is unparalleled. In addition to creating a subsidy paid by all Americans, the sugar program and restrictive quotas have alienated the sugar exporting nations and caused serious damages to their economies. At the same time, the sugar program lessens the willingness and ability of the sugar producing nations to import our agricultural and manufactured products.

Strengthening this country's ability to export our agricultural products is a very important consideration in the success of our overall foreign policy. The current sugar program is detrimental to achieving the levels of exports needed by U.S. farmers and in turn damages many producers in our agricultural sector.

NSDA believes that U.S. sugar policy should be neutral among all domestic agricultural products, and even-handed with respect to other agricultural commodities.

Consistent with the need for such a policy, the following criteria for the development of sugar policy can be specified:

Sugar policy should not overtly create distortions in the allocation of resources among agricultural commodities. Returns to sugar should approximate those obtained from other crops in the same production area as long as each of the crops can be efficiently produced.

Likewise, the prices of sugar should not be maintained at a level that creates distortions in consumption. It is counterproductive to maintain a sugar price that inevitably displaces the market for sugar with corn sweeteners at the ultimate expense of both sugar producers and consumers.

Sugar policy should be developed from the perspective of the long-run interest of the industry—it's producers, manufacturers, users, and consumers—not from the short-run interest of a particular industry segment.

It is in the long-run interest of U.S. agriculture to expand trade. Domestic farm policies should not interfere with that objective. If income protection is judged necessary over and above competitive market prices, it should be provided in the form of direct government payments where the costs of the sugar program are clearly evident to the public.

Likewise, domestic farm policies should not interfere with foreign policies that are designed to encourage the economic development of friendly nations and thereby foster trade and national security in the long run.

NSDA joins the Sugar Users Group in supporting a proposal, which rather than permitting loan levels to increase to 18 cents in October, 1985, when other farm programs are being cut back, would reduce that level to 13 cents for the 1985-1986 crop year. Over the following three years, loan levels would be reduced by 3 cents, 1 cent, and 1 cent respectively. All loans would be recourse loans. It should be emphasized that this proposal does not eliminate sugar subsidies. It simply reduces those subsidies over a period of years and lessens the unfair advantage that sugar producers have had over those who produce other commodities.

The sugar program enacted in 1981 is having disastrous consequences. Clearly, the program should be restudied and vastly overhauled. The proposal outlined above is a reasonable solution to the problems caused by the sugar program created in 1981.

Thank you, Mr. Chairman, for your courtesy in hearing our views. We hope that our thoughts will be of assistance to the Committee in its deliberations.

STATEMENT OF NICHOLAS KOMINUS ON BEHALF OF THE UNITED STATES CANE SUGAR REFINERS' ASSOCIATION

Mr. Chairman, my name is Nicholas Kominus. I am president of the United States Cane Sugar Refiners' Association. Our office is located at 1001 Connecticut Avenue, Washington, D.C. 20036.

Our association represents all of our Nation's independent cane sugar refiners. A list of the refiners for whom I appear is attached to this statement.

Independent cane sugar refiners refine raw cane sugar that is produced in the United States, and that which is imported from abroad. They are not involved in the production or processing of sugarcane.

Although we do not represent the four vertically integrated refiners, our member companies account for nearly 80 percent of the refining capacity in the United States.

The members of the Association operate 11 refineries in 8 States—Florida, Georgia, Louisiana, Maryland, Massachusetts, Missouri, New York, and Texas. They also operate a number of support facilities in other States.

Our industry provides year-round employment for its labor, and not the seasonal or "moonlighting" type of labor that is identified with sugar beet or sugarcane processing.

We are the oldest segment of the sugar industry in the United States, dating back to Colonial times. And despite many recent refinery closings, we are still the largest segment of the domestic sugar industry, insofar as tonnage is concerned. We estimate that our members marketed over 4 million tons of sugar in 1984.

Mr. Chairman, I appear here today to respectfully urge the Committee to reduce sugar price supports.

The sugar price supports that were included in the 1981 farm bill were too high.

High sugar price supports are doing irreparable damage to the cane sugar refining industry. Five refineries have closed since the supports were adopted in 1981—four in the last year (see table I). Operations at one refinery were just suspended last week. Other refineries are operating at reduced capacity. Thousands of people have lost jobs. Communities and families have been disrupted.

The program has also damaged allied industry and labor, such as longshoremen.

There are only 11 independent refineries left. Unless sugar price supports are reduced, more refineries will be closed. More people will lose jobs.

The demand for sugar is dropping at an alarming rate. Per capita consumption of sugar peaked at 102.3 pounds in 1972. Since that time it has declined year after year as Government sugar price supports nurture the competition—the corn processors.

Per capita consumption of sugar dropped from 79.5 pounds in 1981, the year before exceptionally high sugar prices were imposed, to an estimated 67.5 pounds in 1984. This is a drop of 12 pounds or 15 percent. During the same period, per capita consumption of corn sweeteners increased from 44.5 pounds to 57.9 pounds (see table II).

And the future remains grim. USDA estimates that per capita consumption of sugar will drop to 62.7 pounds this year, and to 60.4 pounds in 1986.

The cause of this decline is crystal clear. High sugar prices that are the result of current price supports provide an umbrella under which the corn sweeteners, particularly high fructose corn syrup (HFCS), are priced.

The differential between the price of sugar and HFCS has encouraged food processors to switch away from sugar. No one switches because they believe HFCS is a better product than sugar—it isn't. On the contrary, they all switch reluctantly, and strictly for economic reasons.

At the moment, HFCS penetration of the sugar market is complete because of current technical constraints. However, as long as the price of sugar is supported, exceptionally high pressure will continue to try to find ways to use less sugar and more corn sweetener.

High sugar prices are also intensifying the quest of cheaper artificial sweeteners. This also threatens the corn processors. The net result—a loss for agriculture.

The cane sugar refining industry has been forced to bear the brunt of the decline in sugar consumption. On the other hand, high sugar price supports are encouraging increases in domestic sugar production. This is unfair, inequitable, and shortsighted.

USDA estimates that domestic production in 1984-1985 will total 5.8 million tons, or over 400,000 tons more than produced in 1974, the last year under the old Sugar Act.

And, USDA estimates that production will increase again in 1985-1986. If it does, we will be experiencing the second straight year of increased domestic sugar production.

And, were it not for poor weather and contract disputes between sugar beet producers and processors, domestic sugar production would be considerably higher.

The cane sugar refining industry is efficient, and its labor is productive. We can compete with anyone. We cannot, however, compete with the United States Government.

It is insane for our Government to foster a policy that cripples an efficient industry, such as ours, and permits producers who have to depend upon heavy subsidization to expand.

Refining is a high volume, low margin business. Unless sugar price supports are reduced, refiner volume will continue to decline. If it does, those refiners who survive will be struggling over an ever smaller volume. Under those circumstances, no refiner will remain viable.

The sugar program is also having an adverse impact upon those nations from which we traditionally import sugar, most of which are located in Central America, the rest of Latin America, and the Caribbean.

High sugar price supports have drastically reduced the demand for imported sugar, and thereby undermined the economic and political stability of these nations, which are so important to the security of the United States.

The sugar program is also inhibiting the much heralded Caribbean Basin Initiative. For example, under the Initiative the Dominican Republic is to be permitted to ship up to 860,000 tons of sugar a year to the United States free of duty. The Initiative is, however, overridden by USDA's sugar program. As a result, the Dominicans can ship little more than 400,000 tons.

Sugar imports, which as recently as 1974 accounted for 51 percent of our sugar needs, have dropped to less than 36 percent of our needs. Thus, the goal of a 50/50 balance between domestic production and imports, which was long our national policy, has been distorted. If we measure imports against total sweetener needs, both sugar and corn, they account for less than 20 percent of the total.

Sugar imports, which totaled nearly 5 million tons in 1980-81, are estimated to be 2.3 million tons in 1984-85 (see table III). Earnings from those shipments dropped from over $2 billion in 1980-81 to an estimated $850 million in 1984-85.

We estimate that imports in 1985-86 will be less than two million tons. And unless our sugar program is changed, imports will drop to around one million tons a year shortly thereafter, and earnings will drop accordingly.

This drop in imports is catastrophic to our foreign friends. It is also detrimental to the American farmer. It is generally agreed that if American agriculture is to prosper, it must export. It is also agreed that the only place to really increase exports is in the developing world. Markets in the developed nations are saturated.

The sugar exporting nations represent an important market for American agriculture. More importantly, prospects for increasing exports to these nations are most favorable.

For example, the population of Latin America and the Caribbean is expected to increase by over 200,000,000 people by the year 2000. Thus, in a short 15-year time span a nation the size of the United States will, in effect, surface south of our border.

These nations cannot, however, buy from us, if they cannot sell to us. Trade is a two-way street. Sugar is among a handful of products they can produce efficiently for export. In 1981, sugar ranked third, behind petroleum and coffee, as a top dollar earner for Latin America and the Caribbean.

Unfortunately, our sugar policy prohibits them from fully exercising their comparative advantage in sugar production.

Our sugar program is also depressing the world price of sugar, and thereby further inhibiting the ability of these nations to earn the dollars they need to buy our products and service debt.

Today, it has become fashionable for our sugar producers to blame the European Community (EC) for the depressed world price of sugar. In so doing, they blatantly ignore the negative impact our program has had on the world market. In reality, the United States has done as much to depress the world price of sugar as the EC. In fact, in recent years, the EC has moderated its behavior, while we have become more disruptive (see table IV).

The sugar program has also ignited trade problems with the EC that threaten our lucrative soybean trade. The Community contends, and rightfully so, that our sugar program also subsidizes the production of high fructose corn syrup, and its byproducts, corn gluten feed and meal, which until recently were all marketed in the EC.

Today, the EC simply cannot absorb all of the corn gluten feed and meal, and it is also being marketed here in the United States where it is depressing the price of soybeans.

Ironically, the dramatic increase in the production of HFCS has done little, if anything, to improve the price of corn (see table V).

High sugar price supports are also placing an unnecessary burden upon sugar consumers and users. They force the Government to artificially maintain the price of sugar unreasonably high. The retail price of sugar has increased for the past three years, and averaged five cents a pound higher than in the preceding seven years, 1975-81, a period in which Government assistance was far more reasonable.

Today, American consumers are paying more for sugar than consumers in most, if not all, of the other nations of the world (see table VI).

Although there are no Treasury costs for the sugar crops, USDA cites consumer costs of as much as $2.3 billion a year.

The burden for supporting sugar is placed on the marketplace, whereas the cost of other crop programs is primarily borne by the Treasury. It is interesting to note that the consumer cost for sugar is comparable to the Treasury costs for the other commodities. (see table VII).

Thus, the sugar crops, which are produced on less than one percent of the nation's farms, on less than one percent of the total crop acreage, and that contribute less than one percent of total cash receipts from farming, are being supported totally out of proportion.

It must also be noted that high sugar price supports force the Government to borrow hundreds of millions of dollars to finance CCC sugar loans. USDA estimated that it would have to borrow $760,000,000 to finance the 1984 loan program. Although these loans do not appear in the Budget, they do put added pressure on financial markets.

Sugar producers receive all of these benefits without obligation. There are no controls on domestic sugar production, as there are for the other crops. The cane sugar refining industry, which receives no benefits from the program whatever, is the only segment of the domestic sugar industry that is subjected to rigid controls.

The 1981 farm bill forced the Government to up the so-called "market stabilization price" (MSP) from 15 cents a pound in late 1981 to nearly 20 cents a pound in early 1982, an increase of 5 cents a pound or over 30 percent.

This proved to be so disruptive that the Government could no longer protect the sugar producers with import duties and fees, as it had for the preceding 7 years since the old Sugar Act expired. It had to resort to the most reprehensible of protectionist tools, the restrictive import quota.

The sugar quotas make a mockery of our Government's goal of trying to liberalize world agricultural trade for the benefit of American agriculture. The Japanese, and others, point to the sugar quotas and say we do not practice what we preach.

The quotas also expose us to sugar blends and mixtures, primarily from Canada, that are concocted solely to circumvent the quotas. They also encourage imports of sugar-containing products. We estimate that these products displace over 100,000 tons of sugar a year. If the current program is not changed, we believe this trade will proliferate.

We have an absurd situation where our refiners pay over 20 cents a pound for the same raw sugar that is available to Canadian refiners for less than 5 cents a pound.

The sugar price supports that were included in the 1981 farm bill were, in large part, based on preliminary USDA cost of production estimates that subsequently proved to be overstated.

Initially, USDA projected the cost of 1981-82 raw cane sugar at 27.7 cents a pound. Later it revised its projection to 21.9 cents—a drop of nearly 6 cents. It initially projected the cost of 1981-82 crop refined beet sugar at 29.2 cents a pound. Later, it revised its projection to 23.7 cents—once again a drop of nearly 6 cents.

In addition, high supports were based on anticipated increases in production costs that never materialized. Producers talked about a 14 percent increase per year. In reality, costs increased considerably less. Some producers experienced reduced costs.

As a result, the sugar crops are, by far, the most heavily subsidized crops. USDA indicates that net returns per acre for sugar beets and sugarcane are far higher than those for other crops (see table VIII).

USDA has structured the program in an overly protective manner. The market stabilization price has been set higher than it need be.

As USDA's rules are presently constructed, processors pay interest if they redeem sugar placed under CCC loan. They do not, however, pay interest, if they forfeit the sugar to CCC.

Processors should be required to pay interest whether they forfeit or redeem the sugar. Chances of forfeiting are less, if they must pay interest upon doing so.

In 1980, USDA proposed that interest be paid upon forfeiture, and for good reason. In its proposed rule USDA noted that, "if interest is not charged upon forfeiture, these types of contracts sometimes result in a situation where it is more financially desirable for the processor to forfeit sugar, rather than to redeem and pay interest, even when the market price for sugar is more than adequate to cover the principal and interest on the loan."

USDA subsequently decided not to offer a loan program for the 1980 crop, and the matter was dropped. If USDA would, as it should, charge interest upon forfeiture, the MSP could be reduced by nearly one cent a pound.

USDA has also overstated "transportation and handling costs" in the construction of the MSP. Transportation and handling costs have been set at 2.68 cents a pound to cover around 200,000 tons of sugar that moves from Hawaii to the Gulf or North of Hatteras. USDA assumes that this sugar would be forfeited, if the factor were smaller.

Transportation and handling costs for the other 8 million tons of sugar that is marketed in the United States is, however, considerably less. For example, the average freight rate for Louisiana is .52 cents a pound.

So we have a classic example of the tail wagging the dog. In order to avoid acquiring 200,000 tons of sugar, the price of the remaining 8 million tons is ratcheted upward at great expense to consumers.

If the producer of any other crop forfeits his CCC loan he must pay the transportation and handling costs involved in delivering the commodity to the point designated by the CCC. Sugar is the only exception to the rule.

USDA should require that processors pay the cost of transportation and handling, if they forfeit sugar. If they were required to pay those items, the MSP could be reduced by nearly 3 cents a pound.

There is no need whatever for USDA to include a factor for "incentive to market" in the construction of the MSP. It should be removed.

USDA has administered the program in a most cautious manner. It has, until fairly recently, maintained the market price well over the MSP—at times from one to two cents a pound higher. Because of this "overkill" it is obvious that there is no need to include "incentive to market" in the MSP.

Sugar price supports do not merely provide a "safety-net" to protect producers from disaster, as they contend. The supports guarantee them a profit.

The failure of any producer to profit under the program can only be attributed to one of the following four factors, or any combination thereof:

First, poor weather, which affects costs and yields. Every segment of the industry has experienced poor weather in recent months.

Second, losses from other operations which, in some cases, may not even be in the agricultural field because of the diversified nature of the huge corporate producers who dominate the industry.

Third, regional overproduction, which is the result of high supports, and forces processors to market far away from normal markets and thereby incur high marketing costs, which impact earnings.

And fourth, plain old mismanagement.

Financial statements that are made public substantiate these conclusions.

For example, five large conglomerates account for over 96 percent of the sugar that is produced in Hawaii.

Amfac, Inc., reported a loss of $14,149,000 for the year ended December 31, 1984. However, sugar contributed $2,644,000 to earnings. Alexander & Baldwin, Inc., reported earnings of $66,590,000 for the year ended December 31, 1984. Sugar contributed 23 percent to revenue and 16 percent to operating profit. IU International Corporation reported net earnings of $7,900,000 for the year ended December 31, 1984. Operating earnings from sugar totaled $6,300,000.

Theo H. Davies & Co., was sold last year by its Hong Kong parent to an employee for $69,600,000. Its financial statements are not available.

Castle & Cooke, Inc., the smallest sugar producer among the five corporations, reported a net loss of $76,667,000 for the year ended June 16, 1984. Figures were not available by type of operation. Press reports attribute its problems to the depressed price of bananas. Nevertheless, Castle & Cooke accounts for less than 7 percent of the sugar produced in Hawaii.

In perusing the reports of these corporations one becomes overwhelmed by the vast wealth they control in the form of real estate.

It is interesting to note that a recent study by the University of Hawaii indicated that independent growers can produce and process sugarcane for around one cent a pound less than these huge corporations.

Statements that are available from the beet sugar industry indicate profitability. The Holly Sugar Corporation reported earnings of $9,424,000 for the year ended March 31, 1984. Its net income for the 9-month period ended December 31, 1984 totaled $5,942,000. The Amalgamated Sugar Company reported net income of $15,200,000 for the year ended June 30, 1984.

In Florida, the United States Sugar Corporation reported net income of $1,280,000 for the year ended September 30, 1984. It attributes its decline in earnings to a weather related reduction in sugar production and to "higher interest costs from increased borrowing for the purchase of stock and to contributions to the employee stock ownership plan." Although it reported a loss of $4,196,000 for the quarter ended December 31, 1984, it indicated that the quarterly results "are not necessarily indicative of the results to be expected for the full year."

In 1983, U.S Sugar mortgaged its property for $260,000,000 to underwrite an employee stock-ownership plan. Other press reports indicated that the company pledged all of its property as collateral, including 296 square miles of land.

Gulf & Western Industries sold its sugar operation in Florida and the Dominican Republic to a group of Florida producers for around $200,000,000.

Sterling Sugars, Inc., a Louisiana producer/processor anticipates a loss for the year ended January 31, 1985, because of a weather reduced crop. It appears, however, that the situation will be mitigated by tax benefits. Sterling has incurred only one other loss in the last 15 years.

There are other signs that point to the profitability of the industry. For example, last year sugar beet acreage in California, the highest cost region in the beet sugar industry, increased by over 20 percent.

In conclusion, sugar price supports should be reduced. There is no justification, whatever, for maintaining them so high.

If the Committee reduces supports for corn, and not for sugar, the situation will become more acute.

Unless sugar price supports are reduced, more refineries will close. Sugar consumers and users who depend upon our industry for a dependable supply of sugar will be forced to pay more and more for sugar.

Lastly, high sugar price supports are short-sighted. While they may benefit domestic producers in the short run, they are destroying the market for refined sugar by pricing it out of existence. They are driving the refiners out of business. This attempt to benefit one segment of the industry, while ignoring the huge injury to the market in which it sells, is nothing more than economic folly.

I respectfully urge the Committee to inject some fairness in the sugar program by reducing sugar price supports. Thank you.

UNITED STATES CANE SUGAR REFINERS' ASSOCIATION

American Sugar Division, Amstar Corporation, 1251 Avenue of the Americas, New York, NY 10020; Colonial Sugars, Inc., P.O. Box 1646, Mobile, AL 36633; Imperial Sugar Company, Sugar Land, Texas 77478; Refined Sugars, Incorporated, 1 Federal Street, Yonkers, NY 10702; Revere Sugar Corporation, 280 Richards Street, Brooklyn, NY 11231; Savannah Foods & Industries, Inc., P.O.Box 339, Savannah, GA 31402; and Supreme Sugar Company, Inc., P.O. Box 56009, New Orleans, LA 70156.

Cane sugar refineries that have closed since the adoption of the 1981 farm bill

Location:	*Date of closing*
Philadelphia	October 1982.
Boston	May 1984.
Chicago	May 1984.
Reserve, Louisiana	January 1985.
Brooklyn	March 1985.

PER CAPITA CONSUMPTION OF SWEETENERS

[Amounts in pounds]

	Imported sugar	Total sugar	Corn sweetener
Year:			
1972	46.7	102.3	21.1
1973	45.9	100.8	23.4
1974	49.0	95.6	25.1
1975	34.4	89.1	27.5
1976	39.0	93.4	29.7
1977	41.5	94.2	31.2
1978	41.2	91.5	33.7
1979	41.7	89.3	36.4
1980	32.5	83.7	40.2
1981	32.4	79.5	44.5
1982	24.9	73.8	48.2
1983	23.9	71.1	52.2
1984	24.2	67.5	57.9

Source: USDA.

U.S. sugar imports

[Short tons, raw value]

Years:	
1980/81	$4,882,000
1981/82	3,534,000
1982/83	3,039,000
1983/84	3,490,000
1984/85	2,299,000

Source: USDA.

IMPACT ON THE WORLD SUGAR MARKET

[1,000 short tons, raw value]

	European Community net exports	U.S. imports
Years:		
1980/81	$3.6	$4.9
1981/82	4.4	3.5
1982/83	4.4	3.0
1983/84	2.9	3.5
1984/85	2.8	2.3

CORN USAGE AND PRICE

	Corn wet-milled for sweeteners and starch (million bushels)	Farm price of corn (dollars per bushel)
Years:		
1980–81	480	3.11
1981–82	510	2.50
1982–83	540	2.68
1983–84	585	3.25
1984–85	620	2.65

Source: Feed Outlook and Situation Report, USDA and World Agricultural Supply and Demand Estimates, USDA.

Average retail sugar price, November 1984

[Cents per kilogram]

City:	
Bern	58
Bonn	65
Brazilia	42
Buenos Aires	63
Canberra	64
London	37
Madrid	60
Mexico City	30
Ottawa	72
Paris	62
Pretoria	48
Rome	70
Seoul	83
Stockholm	86
Tokyo	113
Washington	142

Source: USDA

Net CCC outlays: fiscal year 1985

[Billions of dollars]

Product:	
Feed grains	3.7
Wheat	3.8
Rice	.8
Upland cotton	1.3
Soybeans	.1
Peanuts	(1)
Tobacco	.5
Dairy	1.6
Other	3.2
Total	15.0

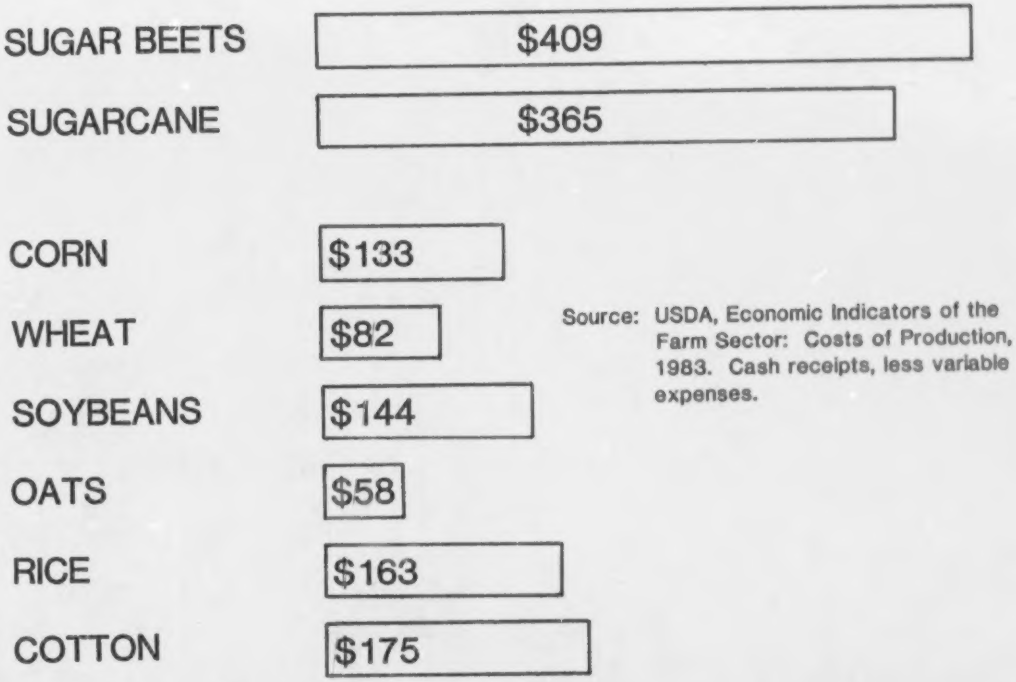
[1] Less than 0.1.

Source: USDA.

VIII

RETURN PER ACRE

dollars per planted acre



Source: USDA, Economic Indicators of the Farm Sector: Costs of Production, 1983. Cash receipts, less variable expenses.

AMSTAR CORPORATION-American Sugar Division-Economic Research

U.S. Cane Sugar Refiners' Association,
Washington, DC, April 29, 1985.

Senator Mark Andrews,
Senate Committee on Agriculture, Nutrition, and Forestry, Hart Senate Office Building, Washington, DC.

Dear Senator Andrews: When I appeared before the Committee at the sugar hearing on April 2, I promised to provide you with additional information regarding the sugar program in the European Community, and the costs of producing the sugar crops compared to other crops.

This information is included in the attached statement, which I assume will be made a part of the official record. (See p. 69 for reference.)

Thank you.

Sincerely,

Nicholas Kominus, *President.*

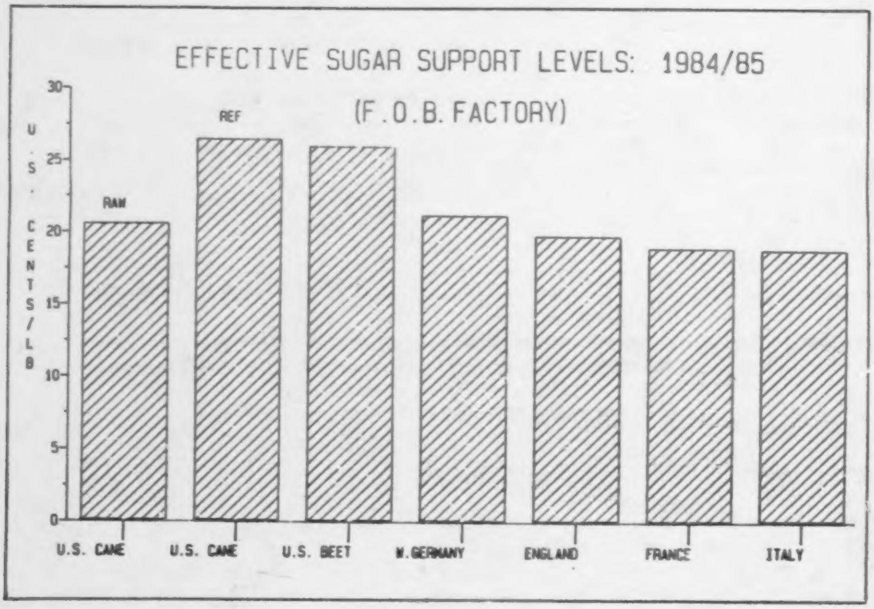
Supplemental Statement Submitted to the Senate Committee on Agriculture, Nutrition, and Forestry by the U.S. Cane Sugar Refiners' Association

THE EUROPEAN COMMUNITY'S SUGAR PROGRAM

During the course of the Committee's hearing on April 2, a number of questions developed concerning the European Community's sugar program. One argument frequently made by defenders of the U.S. sugar program is that the EC has even higher support levels and that protectionism is made necessary by the EC's practice of subsidizing exports, which depresses world market prices. However, a comparison of the EC and U.S. programs indicates that U.S. support levels and retail prices are much higher than those in the Community and that the U.S. has been an equally disruptive force in world markets.

Although producers in both the EC and U.S. benefit from price support levels that are quite generous when compared to prevailing world prices during the past two or three years, the 1984/85 U.S. program offers an effective support level well above that enjoyed by farmers in the EC.

The chart below compares f.o.b. factory prices in the U.S. and four major European sugar producing countries. The U.S. support rate for raw cane sugar was derived by deducting the national average freight costs (about 1 cent per pound) from USDA's current price objective—the 21.57 cent per pound market stabilization price (MSP). Adjustments for an 8 percent refining loss and refiners' margins (estimated to be 4.25 cents per pound by USDA) bring the effective support level for refined cane sugar in the U.S. to 26.5 cents per pound.



For marketing reasons beet sugar in the U.S. tends to sell at a slight discount to refined cane sugar. As a result, the effective support price for refined beet sugar is estimated to be about 26 cents per pound under normal conditions.

In the EC, the effective support price is the sum of the intervention price and a storage cost payment made by the Community to beet processors. (A further description of the EC program is provided below.) After taking exchange rate differences into account, the weighted average effective support level in the European Community during the current marketing year is about 19.5 cents per pound.

EC producers are taxed to pay the cost of export subsidies. These levies combined with sales of "C" sugar at world market prices reduce EC producer returns below the support price. In 1982/83 the average white sugar return after levies and including "C" sugar sales was about 78 percent of the effective support price. In the U.S., however, refined sugar prices have until quite recently generally been at or above the effective support rate because import quotas restricted supplies enough to hold raw cane sugar prices above the MSP.

The U.S. and EC programs vary significantly in their workings, but the outcomes are strikingly similar in one respect: both support domestic prices well above world market levels and above what would be expected given no program. Consequently, both result in consumption being lower than would be expected and production higher than would be expected. However, U.S. support has resulted in a decline in imports while the EC's has resulted in an increase in exports.

The foundation for the EC price support structure is the basic price for beet, from which the so-called intervention price is determined by adding on beet transport cost, factory reception cost and a processing margin, less an offset for molasses sales. The intervention price, in principle, is the price at which support buying by the national intervention agencies occurs. However, intervention buying seldom occurs. In actuality, market support is provided by a system of export refunds, which allows for the disposal of surplus production on the world market.

The EC regime makes use of production quotas, comprised of individual country and factory quotas, which limit the quantity of production eligible for market support in accordance with an estimate of Community-wide demand. Production outside the quotas, known as "C" sugar, is allowed but is ineligible for intervention buying and export refunds. Nevertheless, "C" sugar has represented up to half of EC exports in recent years.

Another important feature of the EC regime is that producers must contribute through producer levies toward the cost of disposing of the surplus production. For production within the basic quotas (known as "A" quotas) the maximum levy is 2 percent of the intervention price, while the levy on production within the specialization quotas (known as "B" quotas) can reach a maximum of 39.5 percent of the intervention price. The actual size of the levy charged in any one year will vary inversely with the world price.

NET RETURNS FROM SUGAR CROPS

In the testimony we presented to the Committee at the hearing, we indicated that "the sugar crops are, by far, the most heavily subsidized crops." That statement is based upon USDA figures that indicate that net returns per acre (cash receipts, less variable expenses) are far greater for sugar beets and sugarcane than for other crops.

The following table indicates that the sugar crops are still the most heavily subsidized crops, even if we include fixed costs, such as taxes, insurance, interest, et al.

Returns Per Acre: 1983 Crop

	Sugar Beet	Corn*	Sugarcane	Soybeans
	------------ dollars/acre ------------			
Red River Valley				
Receipts less variable expenses	434	136/148		
Receipts less cash expenses	303	48/60		
Receipts less cash expenses and capital replacement	250	20/32		
United States				
Receipts less variable expenses	409	133/145	367	145
Receipts less cash expenses	276	48/60	261	94
Receipts less cash expenses and capital replacement	219	16/28	191	70

* Second figure includes direct payments of 21 cents per bushel assuming 50 percent participation rate and 115 bu./acre yield.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

I am Ellen Haas, executive director of Public Voice for Food and Health Policy, a consumer research, education and advocacy organization. I am particularly pleased to be here today because I represent a constituency that has long been underrepresented on farm issues—consumers.

We have been hearing for months that farmers are in trouble. We know that many rural communities are in trouble too. We have heard that the costly dollar is reducing needed foreign markets for our farm products. We have heard that soaring interest rates have made loans unpayable. And we have heard that our complicated price support structure has made things—at the same time—better and worse.

What we have not heard about in all of this discussion is the American consumer, the person who buys farm products. We have heard practically nothing about how food and agriculture policy affects this ultimate user. The consumer has been left out of the picture almost entirely, as if he or she had no stake at all in decisions about our food and farm policy.

Clearly, this is not, and cannot, be the case. The American consumer has a critical stake in food and agriculture policy. From the way our food is grown to the price we pay for it affect us all in profound ways. It is time that food and agriculture policymaking became a broader, more democratic process that considered more than the opinions of the special interest groups who have traditionally come before this and other Committees. This is particularly true in the case of sugar policy.

I would like to take just a few minutes today to tell you why this year's Farm Bill is important to consumers, the concerns we have about the sugar program, and what we hope we can persuade you to do about it.

First, some general comments. Consumers are primarily concerned about two basic aspects of this Farm Bill:

(1) Costs—both to taxpayers and—through inflated food prices—to shoppers in the marketplace.

In 1983 alone the taxpayer cost of farm programs was approximately $25 billion. It is estimated that, at its conclusion, the 1981 Farm Act will have cost taxpayers more than $63 billion, more than twice the cost of the 1977 Act ($27.7) and almost five times that of the 1973 Act ($12.7 billion). We spend about $300 billion annually for food in the supermarket. This year that figure may top $400 billion. While the average spent is 16 percent of personal disposable income, a significant portion of Americans—the poorest and most elderly among us—spend close to 40 percent of income on food. For these groups in particular, even slight rises in food prices can be devastating. That is why consumers have a real money stake in programs such as dairy, sugar and peanut price supports. These programs raise the floor of marketplace prices for these basic commodities and serve to elevate product prices further when production and consumption are not in balance.

(2) In addition to the enormous costs passed on to American consumers and taxpayers by the farm programs, the distribution of benefits is out of balance.

Consider, for example, the break-out of price support benefits. In 1982 less than 5 percent of the nation's farms produced nearly 50 percent of all farm products sold. The smallest 70 percent, on the other hand, produced less than 13 percent of total product sales. Because government benefits are allocated on the basis of amounts produced, small farmers who sell less but have lower incomes and greater expenses derive little benefit while large farmers who have high incomes and lower expenses receive most of the program benefits. Both the dairy and sugar price support programs have these kinds of off-balance benefits.

So our basic concerns go to the heart of what is wrong with current farm programs—they are too costly and they are unfair. The sugar program is a prime example of agriculture policy gone wrong in this way.

Let me take a moment to highlight our specific cost and equity concerns with regard to sugar.

First, sugar is the most inflationary subsidy program, directly affecting nearly every food in the marketplace.

Consumers annually consume 120 pounds of sweeteners—about five ounces a day—in everything from peanut butter and ketchup through salad dressings to cookies, cakes, and cokes. To the extent Government raises the price of raw sugar through its subsidy program, it directly raises food prices for consumers. When food manufacturers pay more for this ingredient, consumers pay more. In the United States, we pay four times the world price for our sweeteners. Worse, most of us don't even see the cost. It is "hidden" in the marketplace price of the sugared food product, placing disproportionate burdens on the poor and those who spend a larger percentage of their income on food.

No other subsidy program operates in this way—guaranteeing producers profits for a commodity sold on the market by inflating domestic prices.

In 1982, the sugar program added 10 cents per pound to raw sugar prices, yielding a total annual consumer price of $3 billion for this one commodity program. In 1983 the program added 12 cents, or $3.6 billion. Thus, over the 4-year span of this program as currently legistlated, consumers will probably pay more than $12 billion in increased expenditures for food products containing sugar.

Since this annual subsidy comprises at least one percent of the aggregate yearly food bill for the American public, it is more inflationary to direct consumer food costs than any other single commodity subsidy program operated by the Federal Government. Translated as part of the food budget for an average family of four, the subsidy exacts a toll of at least $60 per year—a needless burden that is especially significant for those with lower incomes.

Then there is that question of benefit distribution. Sugar is produced on less than 1 percent of farms in America and fewer than 12,000 producers are involved. But if we look at the average subsidy per producer by dividing the program's direct costs among them, we come up with a figure of $250,000 per year. In comparison, the wheat subsidy program pays 900,000 farmers $10,000 per year. And in further contrast, the Federal School Lunch Program cost taxpayers just over $100 per child enrolled.

Benefit distribution is further skewed by size of the farm. According to USDA, 11 processors in the sugar beet industry receive 40 percent of Federal subsidy benefits while the balance is divided among about 10,000 farmers. The sugar cane industry follows a similar pattern—five corporations produce 98 percent of the Hawaiian crop (with less than 250 farmers producing the other 2 percent) and two corporations produce over half of the Florida crop (with about 125 producing the rest). In many cases, these corporate interests are also broadly diversified into other economic fields. Further, the largest percentage of sugar beet producers also raise other crops. Under these circumstances, it is hard for the consumer to see a prevailing economic or policy reason to provide producers with such sizeable Federal subsidies, especially at such expense in the marketplace.

Finally, this question of balance and equity among price support programs goes to the heart of our current export problem. We can't export corn and soybeans and other staple products to Latin American countries that don't have the money to buy them because we, in turn, won't import enough of their sugar. How much are we willing to pay—in consumer costs—, in questionable trade-offs among our farmers, in damage to international trade to give so much support to a relatively small group of sugar producers?

It is time to bring sugar out of the closet. We should expose its "hidden" features—it is a hidden ingredient extracting hidden costs. And to whose benefit? Not consumers. Not world trade. And clearly not balanced agriculture policy.

In 1985, the sugar program is ripe for reform. There are basically three ways to go. We could continue the present policy, which keeps prices skyhigh and makes consumers pay for the program in many ways.

We could end the program altogether, pressing for international agreements between importing and exporting nations and others price stabilization mechanisms.

Or, we could change the current program to bring it into balance with other commodity price support programs. This is the option Public Voice supports.

We must face the issue squarely. The loan rate and the market price must come down. The administration's plan—while addressing these problems—does not deal with them adequately. We would lower the loan rate incrementally, and persistently! The administration's approach is too abrupt.

These steps would put the sugar price support program on a road that can lessen the cost burdens for consumers. We urge you to consider them carefully as you seek to find new ways to bring equity to our farm programs.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A. AND NATIONAL CONFECTIONERS ASSOCIATION OF THE UNITED STATES

Mr. Chairman, members of the Committee, my name is Richard T. O'Connell. I'm President of Chocolate Manufacturers Association of the U.S.A. and National Confectioners Association of the U.S. Today I would like to address you as President of the National Confectioners Association of the U.S. since other witnesses have testified for the chocolate manufacturer.

Another segment of the confectionery industry which has been impacted by the current sugar program, has been finished confectionery and particularly sugar confectionery.

Many manufacturers of sugar confectionery specifically hard candy manufacturers, are losing business to foreign competitors in South America, Canada, and other countries. They are losing business not because they are poor businessmen, but because of the disparity between world and U.S. sugar prices.

Since 1982, the imports of finished confectionery for both chocolate and non-chocolate confectionery have increased.

In 1982 finished chocolate confectionery imports amounted to 16,093 metric tons. By 1984, these had increased to 35,634 metric tons, a jump of 121 percent.

During that same period non-chocolate confectionery imports rose from 41,273 metric tons to 68,354 metric tons, an increase of 65 percent.

If you were a buyer of sugar confectionery, I could offer you almost unlimited quantities of the following: Hard Candies—individually wrapped, a variety of flavors, in vacuum sealed packs, in various sizes for retail or bulk sales, prompt delivery—55 cents per pound.

Except for one thing, the price quoted is for an imported product. As a representative of a U.S. confectionery manufacturers I would have to ask for 65 cents per pound. Most buyers of sugar confectionery especially those reselling the product in bulk or rebagging for private labels, are buying on cost—not on brand name. We are competing for the consumer's business not because the name of our product is easily recognizable, but because the price is lower.

The problem is not only one of sales—it is one of jobs.

Recently one of our members considered the acquisition of a hard candy company operation which they knew was struggling to survive. With our member's company's knowledge of manufacturing and their existing channels of distribution, they could have overcome many of the problems facing the present manufacturer.

Ultimately, they decided not to purchase the ailing company because they believed they could not be competitive against similar type candies now being imported into the U.S. market.

Most sugar confectionery contains 40 to 60 percent sugar depending on the sweetness and texture.

Sugar represents 70 percent of ingredient costs in sugar confectionery and 25 percent of finished product cost.

At a twelve cents differential between world sugar and domestic sugar, a foreign confectionery manufacture using world price sugar has an automatic ten cents per pound price advantage.

With profit margins for hard candies in the 5 to 10 percent range and finished products which sell for about 65 to 70 cents per pound, that nearly 10 cents price advantage the foreign competitor has is critical.

There is some "normal" trade in imports among manufacturers who import to fill out their product lines. We want this to continue. But what has occurred since 1982 is the importation of sugar confectionery to take advantage of the disparity between world and domestic sugar prices.

We are an industry which prefers free trade, but under fair trade circumstances.

We want to continue a policy position supporting free and competitive trade because we see opportunities to significantly increase the exportation of our products. But to do so, we need domestic agriculture policies which enhance, not inhibit trade and allow us to compete in the domestic market as well as the world market.

Any sugar program should contain the following provisions:

1. Elimination of import quotas on sugar.
2. Reduction of price supports by 5 cents for the 1985 crop year, 3 cents for the 1986 crop year, 1 cent for the 1987 crop year, an 1 cent for the 1988 crop year.

We urge the committee to develop a sugar program which moves us away from the competitive disadvantage we currently face, to a situation where we can be competitive in all markets.

Thank you.

STATEMENT OF ROBERT W. HILLER, PRESIDENT, RETAIL BAKERS OF AMERICA

Good day. My name is Robert W. Hiller. I am president of the Retail Bakers of America. I and my wife, Sandy, are the owners of Rollin' Pin Bakery in Janesville, Wisconsin.

I am here today to testify on the sugar legislation to be included in the 1985 farm bill. I appreciate this opportunity to appear before you. RBA's position may be summarized as follows:

1. We support our domestic sugar industry. We have no desire to bankrupt sugar growers. We have no desire to destroy the U.S. sugar producing industry.
2. But we also support our own retail baking industry. We fear a repetition of what happened in 1974 and 1975. Sugar suddenly went from around 10 cents a pound to 50, 60 or 70 cents a pound, almost overnight. This played a significant role in the demise of many retail bakeries.
3. We favor including sugar in the 1985 farm bill. We are not opposed to some form of price supports for sugar.
4. But we also believe there should be some way to limit how high sugar prices can go, in the event of crisis or acute shortage.
5. We favor eliminating quotas on imported sugar.
6. In general, we support the position of the Sugar Users Group on sugar legislation. RBA is a member of this group. So is our sister association, the American Bakers Association.

As retail bakers, we are vitally interested in the availability and cost of sugar for these reasons:

1. After flour, sugar is the most important ingredient in so many bakery foods. Our own bakery, for example, in a normal week, uses 4,000 pounds of sugar. This amounts to over 200,000 pounds a year.
2. There simply is no substitute for sugar in most of our products. In cakes, cookies and bread, for example, we cannot use high fructose corn syrup or other sweeteners. High fructose corn syrup does not react well with yeast. The yeast does not grow and expand as well with high fructose corn syrup as it does with sugar. Cakes will not have the texture or moisture with other sweeteners that they do with sugar.

3. We are very sensitive to sugar prices. We do not have the space to store large quantities of sugar. Even if we had the space, we would not be able to use so much sugar in a reasonable time. It is not practical for us to "play the market" with hedging and futures contracts.

With the committee's permission, I will proceed to elaborate on some of these points. If you prefer, I will pause to try to answer any questions you may have now.

I. BACKGROUND ON WITNESS AND RETAIL BAKERS ASSOCIATION

I have been in the baking business for 39 years. My wife and I own our bakery. Although we are the only full-line retail bakery in Janesville, there are approximately 600 retail bakeries in the State of Wisconsin. We employ 16 people and have a gross volume of business in excess of one million dollars. Our whole business is based on cakes, cookies and sweets. We do not do a large bread business.

I am currently the president of the Retail Bakers of America. RBA is the national association for the 32,000 retail bakeries in the United States. This includes in-store supermarket bakeries, as well as independent retail bakeries. Retail baking sales are currently a little over eight billion dollars a year. Our association is headquartered in Hyattsville, Maryland.

II. ROLE OF SUGAR IN THE TYPICAL RETAIL BAKERY

Although I can speak with certainty only for my own bakery, of course, I can say that the role sugar plays in my business is fairly typical of the role sugar plays in retail baking generally.

After flour, sugar is my most important ingredient. Practically our whole business is the sale of cakes, cookies and other sweet goods. All of these bakery foods require sugar as an ingredient. There is no substitute for sugar in any of these products. I know, because I have experimented with sugar substitutes or alternatives. These experiments have all ended in failure: for us, there is no substitute for sugar.

We use about 40 bags of sugar or 4,000 pounds, every week in our bakery. This is for normal weeks. During holidays, we use more.

We buy our sugar from a variety of suppliers, depending on where we can get the best price. We buy two forms of sugar, granulated and powder. Right now, our cost for granulated sugar runs about thirty dollars per 100 pound bag. Our cost for powdered sugar averages about thirty-one dollars per 100 pound bag.

We buy sugar weekly. We cannot buy sugar by the truck or railcar load. First of all, we do not have the space to store the sugar. Second, we could not possibly use so much sugar in a reasonable length of time. If sugar is stored too long, it will become hard and unuseable. Third, purchase of so much sugar would be too costly for us.

It is not practical for us to attempt to control our long-term sugar costs by speculating in the futures market or by trying to hedge. We do not have the time, expertise or capital to do this profitably.

III. UNSUITABILITY OF SUGAR SUBSTITUTES FOR BAKERY FOODS

In my experience, there is simply no sustitute for sugar for use in bakery foods. Unlike soft drink manufacturers, or other food manufacturers, we cannot replace sugar with alternative sweeteners such as high fructose corn syrup or aspartame.

I have experimented with sugar substitutes and have found that they do not work in my products. For example, high fructose corn syrup does not react well with yeast. It does not "feed" the yeast, that is, permit it to grow. In fact, high fructose corn syrup actually "kills" the yeast.

One cannot obtain a good grain or have good moisture retention in cakes with high fructose corn syrup. It is sugar which determines the "graininess" of a cake, that is, how fluffy, light or dense the cake is.

IV. CONSEQUENCES FOR RETAIL BAKERIES OF EXCESSIVE COSTS FOR SUGAR

Sugar is so important to retail bakeries that if it became unavailable, or sold at very high prices, the very survival of many bakeries would be at stake. This was proved during the sugar crisis of ten years ago. Today, I am the only full-line retail bakery in the city of Janesville. Janesville has a population of 55,000. There are four doughnut shops and some in-store supermarket bakeries in town. Ten years ago or so, there were seven retail bakeries in Janesville. We lost at least three of these bakeries in 1974 and 1975 because they could not absorb the high costs of buying sugar.

In our own store, we found that when the unit cost of items such as torts or cookies approached sixty cents, due to what we had to pay for sugar at the time, customers simply stopped buying them. We had to stop making many products during the sugar crisis, because no one was buying them. In fact, it was at that time that we started making bread for sale in the bakery.

Our major concern then, and the reason why we wanted to appear before this committee today, is to avoid a repetition of the ruinous sugar crisis of a decade ago. As I said at the outset of my testimony, we have no desire to reduce or destroy our own sugar producers and growers. But neither have we any desire to see our own retail baking industry destroyed or drastically shrunk because we cannot afford to buy sugar and have no alternatives.

We will defer to the wisdom of this committee and to people more knowledgeable than we about the intricacies of sugar economics as to how to accomplish our objectives. But we believe that now, when there is no emergency in sugar supplies or cost, and when the congress is examining agricultural legislation generally, is a good time to addess this issue. The issue, for us, is how to assist and protect our own sugar producers while assuring sugar users at the same time of adequate supplies of sugar at affordable prices.

V. RBA SUPPORTS THE SUGAR USERS GROUP POSITION ON SUGAR

Because sugar is so important to retail bakers, our association is a member of the Sugar Users Group. This group consists of members such as the American Bakers Association, the National Soft Drink Association, the National Confectioners Association, the Milk and Ice Cream Association, and the Biscuit and Cracker Manufacturers Association. Together, these associations use about 70% of the sugar consumed in the United States.

We understand that the Sugar Users Group is testifying itself before this committee. Therefore, we will not attempt to state the Group's position again, or on its behalf. Briefly, however, the Group advocates eliminating quotas on imported sugar. It also advocates a considerable reduction in the support price. Specifically, the Sugar Users Group recommends reducing the loan rate to 13 cents per pound in 1985; 10 cents per pound in 1986; 9 cents per pound in 1987; and 8 cents per pound in 1988.

RBA supports the position of its sister associations and the Sugar Users Group on sugar legislation for the 1985 farm bill.

STATEMENT OF JOHN L. BUSHNELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HOLLY SUGAR CORP., COLORADO SPRINGS, CO

I am John Bushnell and I am president and CEO of the Holly Sugar Corp., a stock held company headquartered in Colorado Springs, CO. We own and operate seven beet sugar processing plants; three in California two in Wyoming and one each in Montana and Texas.

Our processing facilities are located in rural communities such as Sidney, MO; Torrington, WY and Hereford, TX—and, in every instance, they are essential to the economic well being of not only the sugarbeet growers, but virtually the entire population of those areas.

In our testimony today, we will provide clear evidence that U.S. sugar producers help assure consumers with an adequate supply of this basic commodity at a stable, fair and reasonable price. The Company I run competes vigorously in the marketplace with other sweetener producers and, as always, the ultimate beneficiary is the American consumer.

We are asking for continuation of price support legislation for sugar for the basic reason that it insulates consumers from the volatile world sugar market and insulates U.S. producers from the wide range of foreign government schemes designed to dump heavily subsidized sugar into the U.S. market.

As you and your colleagues in the Congress consider 1985 farm legislation, I respectfully urge you to keep in mind the very important fact American consumers are the best fed in the world while spending the lowest percent (15.2 percent) of our total disposable income for food.

The farm-to-market spread for food prices is also, I'm sure a matter of considerable concern. According to the U.S. Department of Agriculture, in 1984, farmers got 66 cents for a dozen eggs—some 64 percent of the retail value of $1.02. They got 58 cents for a one-half gallon of milk, some 51 percent of the $1.13 retail price. Potato growers in the Northeast got 68 cents out of 10 pounds of spuds, only 35 percent of their retail value of $1.91.

I don't have to tell you potatoes, eggs and milk don't need a whole lot of processing before reaching consumers. Sugar crops do require a lot of processing however.

Right there in the middle—insofar as what percentage of the retail price the farmers receives—are sugar producers. We processors accept the beets from the farmer and then pile, slice, diffuse, purify, granulate, package and deliver the resulting sugar to the wholesalers and supermarkets of the country.

In 1984, after their mark up was made, that sugar sold for an average retail price of 35 cents per pound out of which our growers got an average of 14 cents—some 40 percent of the retail value. Sugar is a bargain, Mr. Chairman, and no one in the domestic sugar industry is being overcompensated for its production.

I know you will hear from those who maintain the domestic sugar program unreasonably provides a price umbrella that encourages the expansion of the corn sweetener industry. I have seen studies that show this expansion of the corn sweetener industry has added some 25 to 30 cents to the value of every bushel of corn produced in this country and I don't think anyone on this Committee can find fault with that. Insofar as providing an umbrella, however, I think the facts speak for themselves. In 1981—before the current sugar program went into effect, 55 percent high Fructose Corn Syrup sold at a discount to sugar prices of some 16 percent. The first year of the current sugar program, that discount was 31.9 percent, according the USDA statistics. The discount was 27.6 percent in 1983 and averaged 22.5 percent the first three quarters of 1984. During the entire period, High Fructose Corn Syrup discounts to sugar ranged, on a quarterly basis, as high as 41.7 percent. I submit, this is convincing evidence that corn sweetener prices fluctuate in accordance with a set of supply and demand factors totally removed from the price of sugar.

Meanwhile, it is significant to note that in that industrial use where HFCS has made its greatest inroad (the non-diet soft drinks)—that particular category in the Consumers Price Index rose almost 19 percent from pre-sugar program 1980 to October 1984. The price of sugar, however, has decreased more than 20 percent and HFCS 55 introduced in 1981 has, as we earlier indicated, been discounted to varying degrees below prevailing sugar prices.

Despite the reduction since 1980 and despite the stability in sugar prices that has prevailed the last three years, the consumer prices for sugar-containing products in every category has continued to increase. Attached to my testimony, Mr. Chairman, is a chart based on U.S. Department of Labor statistics clearly showing this pertinent fact. I request that it be made part of the record of this hearing.

Among the unwarranted and untrue charges made about the sugar program is that Congress was "duped" into setting the loan levels too high because a preliminary USDA study erroneously reported cost of production figures somewhat higher than they actually were.

The fact is, the findings which had been utilized in the preliminary study were changed when the study was published in final form and the estimated cost of production figures were reduced somewhat. But it is, moreover, also true, average production costs remain well above the loan level and, further, as the Chairman and Members of the Committee who were here then, well remember, production costs for sugar crops were never a consideration in the deliberations that led to setting the loan level.

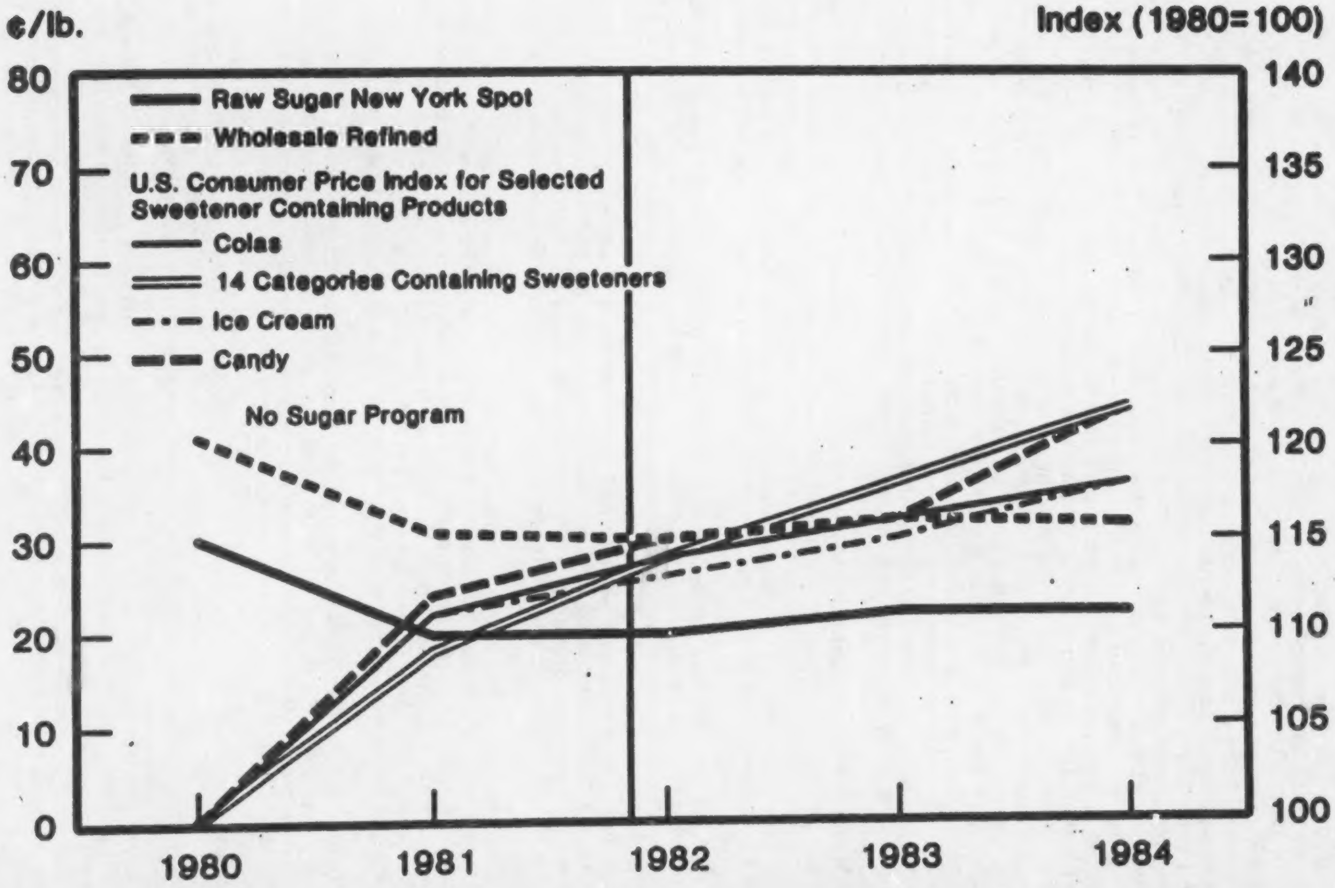
Critics of the program also maintain the Market Stabilization Price of 21.57 cents is too high and the difference between it and the loan rate—currently some 3.8 cents—is greater than is necessary to encourage the sale of sugar on the market as opposed to forfeiting it to Government ownership.

You may recall, on June 1, 1981, the USDA leaked a "worst case" inflationary impact statement on then pending sugar legislation which stated there was a "need" for a 7 cents cushion above the 19.6 percent loan rate—under consideration at that time. This, according to the never-released impact statement would require a market stabilization price of 26.6 cents.

Every Senator received a letter from the Retail Bakers of America on June 11, 1981, claiming the difference between the loan rate and market stabilization price would have to exceed 6 cents.

The USDA impact statement and the subsequent letter from the Bakers Association were, in my estimation, a conscious effort to mislead the Congress and were a factor in the ultimate reduction of the loan rate in the final version of the bill. When it came time to administer the program, of course, USDA did some recalculating and determined that the cushion between the loan rate and the Market Stabilization Price of well below 4 cents was all that was necessary. And, of course, they were correct. No sugar has been forfeited to government ownership.

In conclusion, Mr. Chairman, I should like to repeat what I know many in the sugar business recognize. The sugar program is working well and, as they say—if it isn't broke—don't fix it."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1980
1981
1982
1983
1984
Raw Sugar New York Spot
Wholesale Refined
U.S. Consumer Price Index for Selected Sweetener Containing Products
Colas
14 Categories Containing Sweeteners
Ice Cream
Candy
No Sugar Program

STATEMENT OF MICHAEL WARNER, LEGISLATIVE CHAIRMAN, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. Chairman, my name is Michael Warner. My wife, Joanne, and I own and operate our family farm in Hillsboro, ND, where we grow sugarbeets, soybeans, wheat and barley. Along with my four children, I have one full-time hired man and four part-time employees helping me. I am currently legislative chairman of the American Sugarbeet Growers Association and am here today to present the views of that association. All sugarbeet-growing associations in the United States, representing 14,000 contract holders in 13 states, are unified and in full support of this testimony. A copy of our membership list is attached to my statement for your reference.

When the Sugarbeet Growers appeared before this committee in 1981 there were four basic goals they were trying to achieve with regard to sugar legislation.

First, and most important, we needed to assure a reliable supply of sugar to people in the United States by maintaining a domestic sugar industry. The simple fact is that there have been no shortages since 1981.

Second, we had to stabilize the violent price swings in the sugar market which pressured consumers and industrial users when prices soared and devastated producers and processors when prices plunged. Attachment No. 1 is a chart of average U.S. retail prices by month—comparing prices in 1980 and 1981, when no sugar program was in effect, with prices from 1982 through 1984, when the program was in effect. As you can see, stability has been achieved.

The third goal was to avoid significant Government outlays which might increase the national debt and taxpayer burden. The fact is that there have been no forfeitures since the beginning of the Sugar Program. This was achieved because the administration used its authority and flexibility to administer the program effectively.

The fourth goal was to establish a support program for sugar. At the time of the House Sugar Subcommittee hearings in 1981 a cost of production study was being conducted by U.S.D.A. on sugarbeets and sugarcane. Since the study had not been completed by the time of the bill's markup, growers and processors arrived at an appropriate loan level and provided it for the committee.

However, as the sugar title worked its way through Congress, several arbitrary reductions were made in the loan level. The record clearly shows that the legislated loan rates in 1981 were a result of negotiations in the House and Senate conference committee on the farm bill. If the cost of production survey had been seriously considered by the congress, the present loan rate would have been significantly higher than it is today.

Anyone suggesting that a correlation did exist in 1981 between the cost of production and loan rate has either been ill-informed or is purposely misrepresenting the facts.

According to a recent report by the Economic Research Service of U.S.D.A., average sugarbeet growers in six of the 13 states lost money on their crop in 1983. Results on the 1984 crop will not be available until after September 30 of this year. But given the fact that the domestic price has been below the market stabilization price for an extended period of time, I don't expect 1984 to show much improvement over 1983.

Mr. Chairman, producing a crop of sugarbeets is significantly more cash intensive than any other supported commodity, with the exception of sugarcane. For example, the variable expenses to produce one acre of sugarbeets is equal to the variable expenses of 6.1 acres of wheat, 5.7 acres of soybeans and 2.5 acres of corn. When variable expenses of beets are subtracted from cash receipts and expressed as a percent of variable expenses, we find that sugarbeets are below the average of other commodities (six above and five below sugarbeets.) Chart No. 2 has been attached to this testimony for your reference.

The evidence overwhelmingly supports the fact that the current sugar loan level is at best a safety net for growers.

The way I see it, Mr. Chairman, when growers are struggling to make ends meet and are providing an essential product to U.S. consumers, which on a pound-for-pound basis is half the price of dog biscuits, there is room for upward adjustments in the sugar loan rate.

In conclusion, the American Sugarbeet Growers Assocaiton sees the current program as having been successful in achieving assured supplies at reasonable and stable prices for consumers, at no cost to the Government, and as a safety net for the grower. Therefore we simply ask this committee and the Congress for an extension of the current sugar title, with loan rates which will reflect the increased cost of production.

Thank you, Mr. Chairman, for the opportunity to appear before you and the committee.

MEMBER ASSOCIATIONS OF THE AMERICAN SUGARBEET GROWERS ASSOCIATION

California Beet Growers Association, Ltd.
Elwyhee Beet Growers Association (Idaho)
Great Lakes Beet Growers (Michigan)
Idaho Beet Growers Association
Minn-Dak Farmers Cooperative (Minnesota/North Dakota)
Monitor Sugarbeet Growers, Inc. (Michigan)
Montana-Dakota Beet Growers Association (Montana/North Dakota)
Mountain States Beet Growers Marketing Association of Colorado and Kansas
Mountain States Beet Growers Association of Montana
Nebraska Non-stock Cooperative Beet Growers Association
Northern Ohio Sugarbeet Growers Associations
NYSSA-NAMPA Beet Growers Association (Idaho-Oregon)
Red River Valley Sugarbeet Growers Association (Minnesota/North Dakota)
Southern Minnesota Sugar Cooperative
Texas Sugarbeet Growers Association, Inc.
Washakie Beet Growers Association (Wyoming)

CHART #1

U.S. AVERAGE REFINED SUGAR RETAIL PRICES -- Cents/Pound - 1980-1984

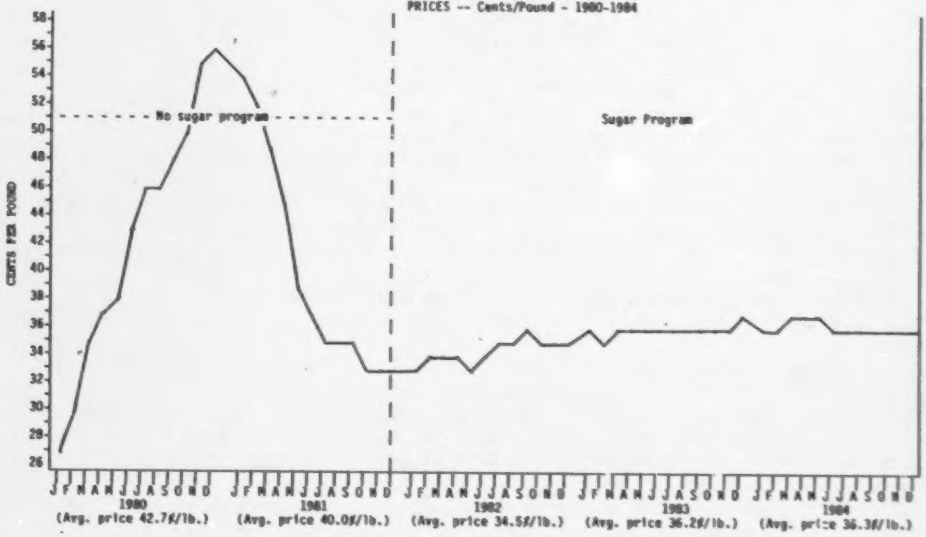
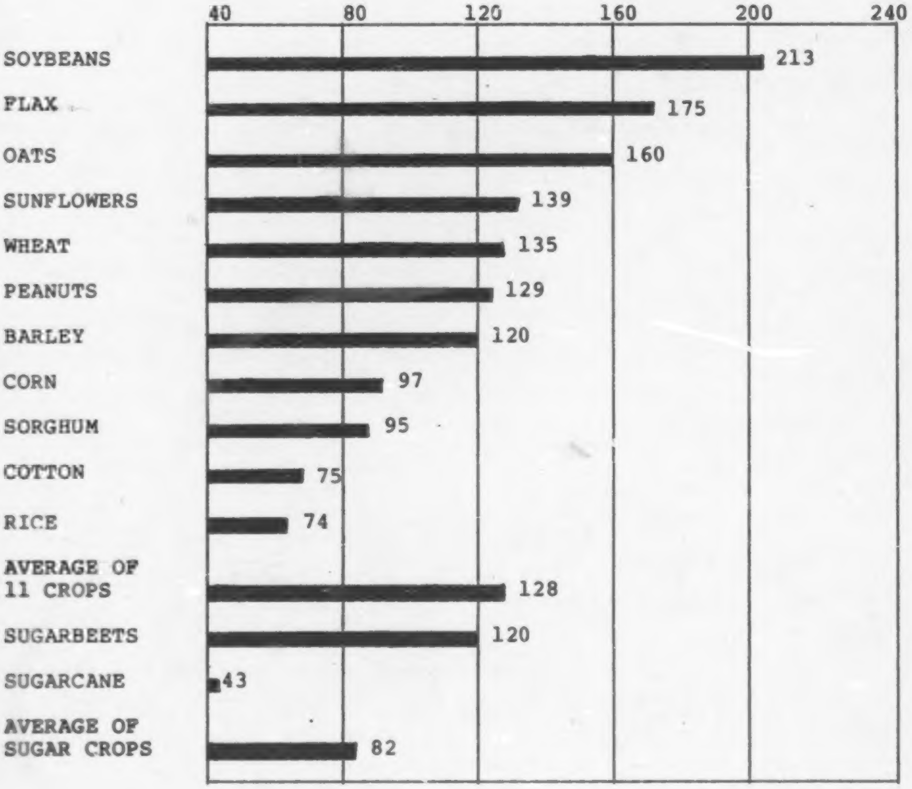


CHART #2

RETURN PER ACRE

CASH RECEIPTS LESS VARIABLE EXPENSES EXPRESSED AS A PERCENTAGE OF VARIABLE EXPENSES: AVERAGE 1981, 1982 and 1983 CROPS



SOURCE: USDA

FARGO, ND.

PATRICK MAHER,
President, Red River Valley Sugar Beet Growers Association, Care of Senator Mark Andrews Office, Russell Building, Washington, DC.

This is a confirmation copy of a telegram addressed to you:

DEAR MR. MAHER: The sugar beet industry is extremely important to the economy of the Red River Valley of North Dakota. A total of 139,100 acres of sugar beets were planted in North Dakota in 1984 resulting in 2,309,000 tons of production. This production generated approximately $85 million in income to the State's sugar beet producers in 1984.

The Red River Valley Sugar Beet Growers Association has developed specific recommendations for inclusion in the 1985 farm bill which, if adopted, will help maintain the viability of the sugar beet industry in the Red River Valley and, in turn, the viability of several communities in the valley where sugar beet processing plants are located.

The Greater North Dakota Association endorses and supports the recommendations presently being proposed by the Red River Valley Sugar Beet Growers Association.

DALE O. ANDERSON,
President, Greater North Dakota Association.

STATEMENT OF GERALD W. SHANNON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MINN-DAK FARMERS COOPERATIVE, WAHPETON, ND

I am Gerald Shannon, President and Chief Executive Officer of the Minn-Dak Farmers Cooperative, a 309 farmer-owned beet sugar processor headquartered in Wahpeton, ND.

Minn-Dak employs 475 full and part-time workers with an annual payroll of $5.5 million. We are the largest employer in the community of Wahpeton.

The more than 300 Minn-Dak grower-owners raise sugarbeets on some 58,000 acres of land each year (every 3 years in rotation with wheat, barley, corn, etc.). With average yields of some 17.5 tons per acre, we get delivery of some 1 million tons of sugarbeets each fall. From these beets, we extract around 220 million pounds of sugar and thousands of tons of sugarbeet byproducts with a market value for the current year of about $70 million.

I acknowledge, these aren't gigantic numbers in today's trillion dollar economy, but utilizing a renewable resource to generate that kind of revenue in our area makes us every bit as important to that area as are autos in Detroit and steel in Pittsburg.

Importantly, Mr. Chairman, in view of today's world sugar conditions, were it not for the U.S. sugar price support program, we'd very likely not be in business at all. Our loss would be shared by virtually everyone in our area . . . farmers, merchants, suppliers of goods and services and thousands of employees whose economic livelihood is directly and indirectly dependent on our existence.

The situation that exists in our area is the same in 40 some other American communities where the beet sugar industry is vital to the local economies.

We are efficient producers of a basic commodity that remains an essential link in our nation's food chain. For most of this country's history—and most recently in 1981—the United States Congress has acknowledged that the existence of a viable domestic sugar industry was and is in the best interests of all Americans: producers and consumers alike.

During the 3-year history of the current sugar loan program, it has cost the U.S. Treasury zero dollars.

As an aside Mr. Chairman, the sugar title included in the Administration's proposed 1985 farm bill would on the one hand put my cooperative out of business, and while doing so, would hand a heavy expense to the taxpayer. It proposes direct payments from the Treasury to make up for greatly reduced income currently being achieved by the U.S. industry in the marketplace.

As has been stated earlier, the sugar program enacted in 1981 works admirably. It doesn't need major modifications. (Some say if it ain't broke don't fix it. There's also a saying in North Dakota that if you tinker around with something long enough, you'll end up breaking it.)

As chart "A" attached to this testimony clearly shows, the program has resulted in stable sugar prices. As I'm sure you're aware, Mr. Chairman, stable prices for any commodity are repugnant to the brokers, traders and speculators who make their money on price fluctuations. And stability is of less concern to huge industrial buyers of sugar who can hedge purchases on the futures market. But stability is of critical concern to consumers and, particularly, smaller commercial buyers: "Mom and Pop" bakeries, for instance, simply cannot jiggle prices everytime there's dramatic change in the price of their ingredients.

And finally, Mr. Chairman, the chart shows the price of sugar has actually averaged less during the three years the program has been in operation than it averaged for the two years just prior to its enactment.

(I request that this chart be made a part of the record of this hearing.)

You will hear from those who maintain the price of sugar, though stable, is too high in the U.S. They will use, for instance, the price of sugar in the world dump market as a comparision to the U.S. price and suggest the difference—multiplied by American consumption of all sweeteners—constitutes a "cost" of the sugar program to U.S. consumers.

They ignore the fact that precious little sugar is actually traded at the world "dump" price.

They ignore the estimates of their own "hired gun" economists who recognize without U.S. production the world price would be based on deficit production figures and, thus, considerably higher than it is today.

There are considerable inponderables about the world sugar situation. The multitude of steps taken by various governments to insulate their producers and consumers make it impossible to adequately decipher an appropriate level of either the cost of production or what consumers pay insofar as world sugar prices are concerned.

The situation is further complicated by the unprecendented increases in the relative value of the U.S. dollar.

In order to ascertain some measure of consumer expenditures for sugar in this country, we believe it is revealing to consider the number of minutes an average U.S. worker must be on the job to earn enough to buy a pound of sugar at the average 1984 retail price.

According to the U.S. Department of Labor in 1984 the average U.S. worker earned the price of a pound of sugar each 1.47 minutes.

The U.S. Department of Agriculture's Foreign Agricultural Service surveyed its agricultural attaches in various countries around the world asking them to determine the number of minutes the average wage earner had to work to earn the equivalent of the cost of a pound of sugar. Of the 34 countries from which this data are available, the response ranges from 2.06 minutes in Canada to 74.0 minutes in China. I have a chart which shows the precise numbers from each of the reporting attaches and I request that it be made a part of the record of my testimony. (Chart B)

We strongly believe that American consumers are willing to pay a reasonable price that reflects a fair return to producers of a basic commodity for the investment of their resources and their time and effort. As the chart indicates, U.S. consumers are able to buy sugar at a price that is not only stable, but is inexpensive in terms of (a) their ability to pay; and (b) what other people around the world must give up to obtain this important food product.

Mr. Chairman, the current spread between the price of sugar being dumped out there in the so-called "world market" and the price achieved here as a result of the U.S. support program, is wide enough to stimulate numerous inventive schemes aimed at circumventing our program.

The USDA has labored diligently to administer the program in the face of some cleverly conceived market disrupting practices. However, just as soon as one loophole is closed administratively, another pops up. Much of the sugar arriving in the U.S. in defiance of the spirit of our present program is coming across the border from Canada. Some estimates are that as much as 250,000 tons of sugar equivalent came into the U.S. last year despite efforts to stem the tide. (This is twice the production of my firm.)

These sugar blends slipping into this country are not, or were not, illegal per se. But since the sugar contained in these mostly sugar products was not considered in establishing the import quotas, the market disruptions caused by the importations were severe—impacting not only U.S. producers such as Minn-Dak, but on refiners and on our world-wide sugar trading partners as well.

I have no specific suggestions to make at this time to correct the situation. I feel certain, however, that if the administrators of the program are provided the necessary tools to deal with what is best described as "leakage", then the program will better and more equitably serve all who are impacted by it.

Thank you for the opportunity to appear before your Committee.

CHART #A

U.S. AVERAGE REFINED SUGAR RETAIL
PRICES -- Cents/Pound - 1980-1984

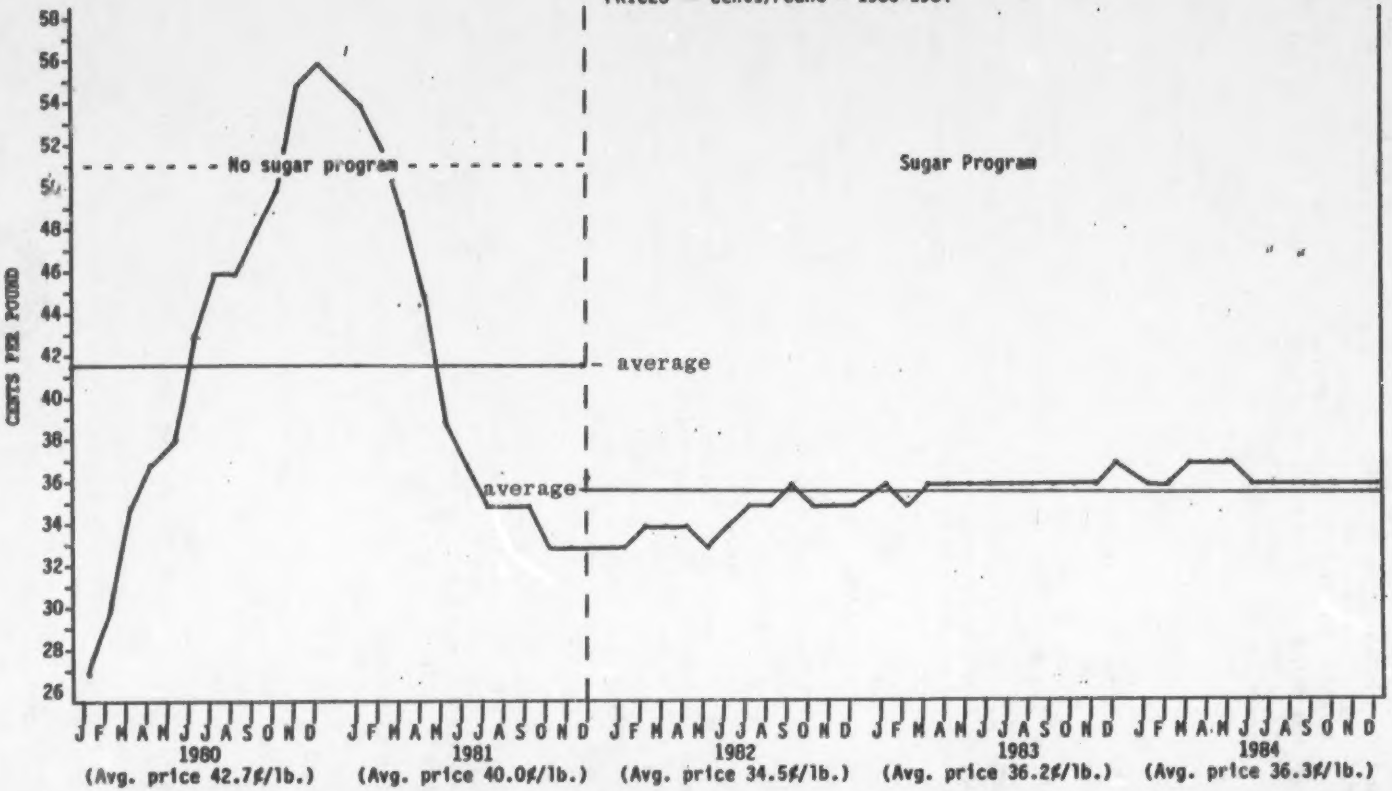
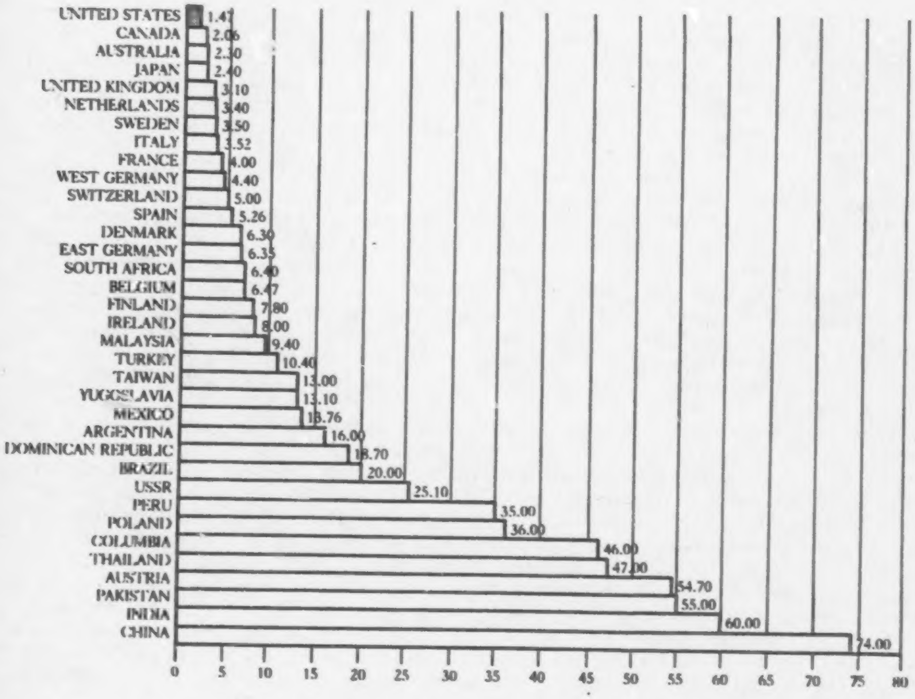


CHART B

Number of Minutes Average Wage-Earner Worked for a Pound of Sugar

The U.S. Department of Labor says in 1984, the average U.S. worker earned the price of a pound of sugar in 1.47 minutes. Late in 1984, the USDA's Foreign Agriculture Service surveyed its agriculture attaches in various countries around the world asking them to determine the number of minutes the average wage-earner had to work to earn the cost of a pound of sugar. This graph shows the results of that survey.



STATEMENT OF GEORGE E. BUTTS, CALIFORNIA BEET GROWERS ASSOCIATION, LTD.

Mr. Chairman and Members of this Committee: My name is George Butts. My home address is 732 Madison Avenue, Los Banos, California 93635. I operate a family farm in the San Joaquin Valley of California. My operation is diversified, growing cotton, sugar beets, beans, and other field crops.

I appear here today as President of the California Beet Growers Association on behalf of the 1,635 sugar beet grower members of the Association. The Association is a voluntary membership, non-profit, grower-owned cooperative service and bargaining association, representing 99 percent of the sugar beet growers in our state. Our Association is a member of the American Sugarbeet Growers Association and is in support of their statement.

California is the leading sugar producing state in the nation. The beet sugar produced by our growers and processors and the cane sugar produced in Hawaii and refined and marketed by the C&H Sugar Company from their Crockett, California, facility results in over 1.4 million tons of domestically produced sugar moving through our state. The market value of this sugar is approximately three-quarters of a billion dollars.

The California sugar processors spend $55.1 million for fuel. Freight on sugar and sugar beets generates $86 million. Our growers spend nearly $80 million in their local communities for seed, fertilizer, custom work, fuel, and other supplies and services. There are over 5,000 people in the State whose jobs are directly related to processing and refining sugar. We estimate the farm payroll just for producing sugar beets is nearly $18 million. You can see from these examples that sugar is important to our State's economy.

Currently, sugar beets are the sixth leading field crop in California. This standing has dropped from fourth to sixth during the life of the current sugar program. The provisions in the current legislation only support the most efficient operations.

The 1981 Spreckels Sugar Divison closed their Salinas Valley factory. The climate and soil in the Salinas Valley are conducive to producing vegetable crops. Land costs are high in this area, and sufficient sugar beets for that factory could not be economically produced locally. Therefore, much of the raw product, sugar beets, had to be shipped to the Spreckels factory at high freight costs from other producing areas of the State. Even with the support provided under the 1981 Farm Bill, it was uneconomical to operate the Salinas Valley factory. This closure reduced our plantings by nearly 40,000 acres.

This year, sugar beet growers in California planted over 200,000 acres to sugar beets, and we anticipate that the four California beet processors, who operate eight factories, will turn out approximately 12 million bags of refined sugar from our crop with a market value of approximately $276 million.

In California production from many of our crops moves into export. Philosophically, most growers believe in free trade. But on the practical side, we recognize there is no free trade in agricultural commodities world-wide and especially in sugar. In a recent report prepared by Economic Perspectives, Inc., entitled "The U.S. Sweetener Industry in the Decade Ahead," the EPI pointed out that the sugar exporting countries, which produce nearly 75 percent of the world's sugar, have price policies to protect their producers. If we are to have domestically produced sugar, the U.S. Government must continue to provide stabilization for our industry.

The current program has not returned full cost of production to all growers in California. Table I, which is a part of my remarks, shows that if our projections are correct for the 1985 crop, in only 1 out of 4 years did the sugar support program produce a "profit" for producers of average yields in our state. The other 3 years, average growers have shown red ink on their ledgers.

California growers, who have traditionally produced sugar beets, maintain this crop in their rotation programs. A combination of crops provides market diversity, and with the present Farm Bill protection, the financial risk in beets is no greater than with other crops.

California sugar beet growers are using all current technology available to improve our production and lower our costs. Included in these efforts is major emphasis on new varieties to improve production and quality.

Current USDA crop estimates report that California growers have planted approximately 19 percent of the sugar beet acreage in the United States. The projected yield in California is 24.7 tons per acre, resulting in approximately 23 per cent of the U.S. sugar beet production coming from California.

We are productive, but our cost structure is high in comparison to foreign sugar producers. All U.S. sugar beet growers must pay the minimum wages as set forth by the U.S. Department of Labor. In California growers are further regulated by State laws with regard to overtime pay, working conditions, hours, days of work, housing, and other employee protections. OSHA oversees worker safety, and stringent and expensive precautions are made to assure safe and healthful working conditions.

Growers and processors must meet certain standards as they relate to the environment. Pesticides, their application, and worker safety are carefully monitored by State and Federal agencies. All these precautions have made our farms and factories the safest, and our workers are the best paid in the world; however, they increase our cost structure and make us uncompetitive with producing areas that do not have our standards.

Some people have suggested that since California produces nearly 250 farm crops, eliminating the sugar industry would not affect growers in our state. This is not true. Alternative crops are limited for individual growers. If sugar beet production were stopped in California, this would cause 200,000 acres of farm land to be diverted to other crops, resulting in increased plantings of other crops that many times are in overproduction, some of which are held as surplus stocks by the government or price supported at high cost to the USDA.

The consumer is also well served by a continuation of the support program. If you refer again to Table I, you will note that in 1983 the Net Selling Price, a reflection of sugar prices, was the highest during the life of current legislation. The reason for the price increase was because of low acreage of sugar beets in California in 1982 and 1983. The lower acreage was because of rain-interrupted plantings which resulted in less sugar available in our state. You can see that a small decline in production can cause increased consumer prices.

If the domestic production from beets and the Hawaiian cane crops were left to die, there would be insufficient refining capacity on the West Coast. The beet factories cannot economically be modified to handle foreign raw sugar; and if they were modified, they are not located where they could receive raw sugar by boat. The only refinery on the West Coast is at Crockett, California, and it does not have sufficient capacity to supply the needs of this area. Sugar for our area would be supplied by foreign sugar from refineries on the East Coast and Gulf States at high freight costs, increasing the consumer's purchase price.

Without the competition between domestic suppliers, be it between beet sellers or between beet and cane sellers, sugar prices will increase; and without continued sugar support, the competition between domestic sugar sellers on the West Coast will be non-existent.

In summary, the current U.S. sugar program is working. It has protected our industry and has not resulted in costs to the Federal Treasury. We believe that beyond 1985, the sugar provisions in the Farm Bill must be maintained at a level of support no less than the current levels, and consideration must be included that reflects cost of production for future support.

Failure to enact a federal program to support the domestic sugar industry will lead to its demise. Lack of a Federal sugar program will make the United States totally dependent on offshore production for our sugar supply and is certain to raise our price of sugar.

We appreciate the Committee taking time to hear our views.

TABLE I

Crop year	Harvested acreage	Tons/acre	Percent sucrose	Net selling price	Dollars per ton	Return per acre	USDA cost per acre	Profit (loss) per acre
1985 [1]	200,000	25.0	15.0	$23.75	$36.50	$912.50	[1] $923.70	$(11.20)
1984 [1]	200,000	24.5	15.0	23.25	34.25	839.13	896.80	(57.67)
1983	168,374	23.5	15.8	25.03	39.22	921.67	867.81	53.86
1982	160,990	24.0	14.8	21.46	32.73	776.88	872.06	(95.18)

[1] California Beet Growers Association estimates.

STATEMENT OF RALPH R. HARDING, ADVISER AND CONSULTANT, GOVERNMENT AFFAIRS, PHILIPPINE SUGAR COMMISSION

Mr. Chairman: I thank you and the members of your committee for the opportunity of appearing here today to make a few observations and recommendations about the sugar program.

I have been involved in sugar since my boyhood on a family farm in Idaho. We produced sugar beets which we sold to the Utah-Idaho Sugar Co. For several summers, I thinned, hoed, irrigated, cultivated, topped, and loaded sugar beets. In 1949 as a young man, I worked a campaign in the sugar room as a bagger at the Utah-Idaho sugar beet factory in Garland, UT.

Later, as a member of the House of Respresentatives from Idaho in the 87th and 88th Congress, I served on the Agriculture Committee. I was a sponsor and strong supporter of the Sugar Act. I believed then and still believe that we need a healthy, prosperous domestic sugar industry and the the sugar beet farmer in Idaho and Texas, and the sugar cane farmer in Hawaii, Louisiana, and Florida must prosper and receive a fair price for the sugar they produce. This is in our national interest. We are still unable to produce enough sugar to meet out domestic requirements. This has been true throughout history. We must import sugar to go with the sugar we produce in filling the requirements of industry and household users in the United States.

This necessarily requires us to decide which countries to buy sugar from and what quantities should be allocated to each country.

As a representative of the Philippine Sugar Commission, I strongly suggest that the allocation formula adopted in 1982 was most unfair to the Philippine sugar industry. Historically they had supplied in excess of 25 percent of our sugar imports, and when quotas were re-established in 1982, their quota was nearly cut in half.

Following is a chart which shows the average annual sugar quotas beginning with the Kennedy administration. One can understand the complaints of the Philippine sugar industry about their greatly reduced quota percentage.

Administration	Average [1] annual total import quota	Average [1] annual Philippines quota	Philippines percent of total
Kennedy 1961–63	4483	1269	28.3
Johnson 1964–68	4224	1166	27.6
Nixon 1969–73	5294	1380	26.1
Ford 1974 (from 1975–81 there were no quotas)	5574	1472	25.6
Reagan 1982–85	2967	400	13.5

[1] In 1,000 short tons raw value.

No other single incident created as much animosity among the Philippine population towards the United States as the dislodgement of the Philippines as the leading foreign sugar supplier to the United States when sugar quotas were reinstituted in 1982.

When President Marcos and his Cabinet came to the United States in September 1982, they distributed a position paper, "A U.S. Sugar Quota for the Philippines Commensurate with Its Record As a Historical Supplier," to senior American officials including the Secretaries of State and Agriculture.

The paper, dated September 13, 1982, thoroughly documents the history of the Philippines in supplying the U.S. market and pointed out that from 1930 through 1981, the Philippines had supplied 25 percent of the U.S. sugar imports, but under the new quota, was allotted only 13.5 percent.

When Ambassador Roberto S. Benedicto, Chairman of the Philippine Sugar Commission, addressed the U.S. Sugar Users Colloquium in Palm Springs, CA on February 20, 1985, he stated:

"All in this room are concerned with sugar, but few of you can realize how much it means to my country. Half of the Philippine population of 53 million depends on agriculture for their livelihood, in contrast to about 3 percent in the United States. But we have only about 9 million hectares of cultivable land, which means that we have to make the most of our land in terms of productivity and employment. The average size of our 2.9 million farm units is only 2.6 hectares; the average size of even the 4.5 percent biggest farms—those larger than 5 hectares—is only 6.6 hectares. Sugar cane has been cultivated on 10 to 12 percent of the arable area to produce 2.5–2.8 metric tons of sugar of which 50 to 60 percent is exported. Next to rice, our staple food, sugar cane has been the most widely cultivated crop. More than 30,000 farm units are engaged in its production, almost two and a half times as many as the beet and cane farm units inthe United States and Hawaii. It is estimated that about 5 million people in 20 provinces are dependent, directly or indirectly, on the sugar industry.

"I must not weary you with a lot of figures, but it is necessary to point out that until the last few years, sugar accounted for 15 to 20 percent of our foreign exchange earnings from traditional exports. The earnings from sugar paid not only for imports of foods and consumer goods, but made possible our industrial, technological and financial development. Earnings from sugar exports supported schools, colleges, and many of our construction and industrial enterprises. Our current foreign exchange difficulties are due to no small extent to the fall in sugar earnings from about 500 million U.S. dollars to less than 300 million in 1983.

"Yet even these facts do not reveal the political, social, yes even cultural and psychological, importance of sugar in my country. Sugar is at the heart of our national political life and culture to an extent that people of economically and culturally diversified, pluralistic societies like that of the United States simply cannot imagine.

"I wonder how many here realize how long and deep have been the sugar relations between our countries. Our records show that in 1796, 20 years after the birth of your Republic, the good ship *Astrea* from Salem, MA, carried back from the Philippines a cargo of sugar, indigo and pepper—on which, by the way, a duty of $24,000 was collected. The United States became the primary market for our sugar long before the Philippines became a part of the United States. During the decade 1880–89 exports averaged 199,000 tons, of which almost 60 percent went to the United States. After the Philippines became part of the United States in 1898, production and exports expanded greatly, stimulated by the influx of U.S. capital, technical knowledge, and management. Moreover, in belated recognition of fairness with regards to duty free entry of U.S. goods into the Philippines, our sugar exports to the United States were eventually exempted from duty. The shortage of production during World War I resulted in the U.S. administration encouraging expansion; by 1932–33 production reached 1.65 million tons, of which almost two-thirds, 1.25 million to be exact, went to the United States.

"The passage in 1934 of the Philippine Independence Act placed duty-free entry to 980,000 short tons; and my country shipped nearly all of its exports to you. Until 1960 the Philippines and Cuba supplied 97.3 percent of all U.S. imports. But when the Cuban quota was carved up among various countries, the Philippines received a modest increase. During the 15 years from 1961 to 1974, the Philippines supplied an average of 1.28 million tons, 27.6 percent of total U.S. imports. The Philippines was the largest single supplier by far during this period: 13.7 percent came from the Dominican Republic, 11.5 percent from Mexico, 10.7 percent from Brazil, almost 9 percent from Peru, and 4.1 percent from Australia.

"When the U.S. Sugar Act was allowed to expire in 1974, the Philippines, with its sugar industry geared entirely to the American market, except for the 35 percent for domestic use, was suddenly cut adrift to fend for itself. Moreover, our industry had just completed a large and costly expansion program involving the establishment of 18 new sugar factories, solely to ensure fulfilment of U.S. quota commitments. The abrupt termination of the Sugar Act without notice and without any period of adjustment was therefore particularly traumatic for us. Our Quota Administration, which had made for equitable distribution of the U.S. quota domestically and for orderly and reliable shipments to U.S. customers was dismantled and trading became chaotic. Dozens of operators of varying character and description sprang up, as the established, honorable trading channels were disrupted and dismantled. Yet when quotas were re-instituted in 1982, the political, social, cultural, legal and economic ties and relationships built up during four score of years, and cemented by blood in three or four wars, were utterly disregarded, and the Philippines quota was based on a traumatic, chaotic, disruptive period of 6 or 7 years. It pains me deeply to say this, as since my university days in Washington, DC, I have considered the United States as almost my second home; but I would be less than truthful if I did not say that it would be hard to find a person in the Philippines who was not embittered by what is universally regarded as a grave injustice."

I repeat Ambassador Benedicto's statement, "It would be hard to find a person in the Philippines who is not embittered by what is universally regarded as a grave injustice."

Sugar is to the Philippines what potatoes are to my home State of Idaho. When Idaho potato farmers have a good year, the economic climate is good. They purchase consumer goods, pay off bank loans, and economic and social prosperity extend throughout the state. Although only a minority of Idahoans are potato farmers who depend directly on income from potato sales, whenever anything happens to adversely affect the potato crop or crop prices, its effect is well known and publicized throughout Idaho. That is why I can easily understand Ambassador Benedicto's statement that it would be hard to find a person in the Philippines who is not embittered by the action of the U.S. Government in cutting the Philippines' share of the sugar import quota from a long-time historical quota of more than 25 percent to 13.5 percent under the current quota program.

The Philippine sugar industry has recently suffered from other actions which have had adverse effect. These have included a precipitous drop in world sugar prices to 4 or 5 cents per pound. Most agricultural economists agree with the words of Under Secretary of Agriculture Daniel Amstutz who blamed the disaster on the European Economic Community for dumping surplus sugar on an already troubled world market in his address to the USDA Agricultural Outlook Conference on December 3, 1984:

"EC policies that encourage sugar production and export of the surplus by using subsidies contribute to sugar over supplies and depressed world prices, which are particularly damaging to developing countries that depend on sugar exports to earn much of their foreign exchange.

"Comparing world stock ratios against price, we calculate that EC sugar policy has reduced world sugar prices by at least 4.75 cents per pound and perhaps by as much as 18 cents, depending on the role assigned to EC net exports in the analysis. It is probably realistic to say that for the past three years, the price impact has been midway between the two—10 to 12 cents. This means that EC sugar policies have cost the sugar-exporting developing countries about $2 billion a year in lost export earnings."

This very depressed world sugar price has had a devastating effect on the Philippine economy.

The Philippine sugar industry suffered another blow in 1983 when CBI legislation was passed which gave great preferences and advantages to the CBI countries in selling sugar to the U.S. market. They had already received greatly increased quotas at the expense of the Philippines in 1982. The passage of the CBI legislation gave them duty-free entry for their sugar into the U.S. until 1995.

In 1984 after the passage of CBI legislation, a third calamity occurred to the Philippine sugar industry. Because of an increase in dollar sales to the United States, the Philippines did not qualify for GSP. The sugar industry was required to pay a maximum duty of 2.8125 cents per pound on all sugar sold to the United States. Can you imagine an ally, a long-time friend, paying duty on their sugar sold to the United States when more than 30 other countries, shipped all of their sugar into this country duty-free under the CBI or GSP? Fortunately, when this was called to President Reagan's attention, he signed a proclamation reducing the duty from the maximum to the minimum.

The sugar section of this farm bill presents Congress with an opportunity to correct the injustices that have been inflicted on the Philippine sugar industry. I propose that the sugar section of this bill provide that all sugar quotas be given to friendly developing countries who are net exporters of sugar; and further, because of the long, historical record of the Philippines as a supplier of sugar and as an ally, that no country be given preferential treatment over the Philippines in supplying the United States with imported sugar. This would mean that the Philippines' quota would at least equal the largest quota of any country supplying sugar to the United States, and that any duties or fees imposed on Philippine sugar imports would not be more than the duties or fees for sugar paid by that country that pays the least duties or fees on sugar sales to the United States.

In conclusion, the Philippines would have a most favored nation status pertaining to sugar sales to the United States.

This would be a giant step forward in bettering Philippine-United States relations at a crucial time. It would let a loyal ally know that their record is acknowledged and appreciated, and that the Philippines and the United States can each count on the same spirit of friendship and cooperation that has existed during World War II, the Korean war, and the Vietnam war. The Philippines are our hosts at Subic Bay Naval Base and Clark Air Force Base. We are signatories to a mutual defense pact. The least we can do is treat them equally with any other supplier of sugar.

I thank you for the opportunity to make this statement here today in behalf of the Philippine Sugar Commission.

STATEMENT OF FRANK ROBINSON, SECRETARY, AMERICAN BEEKEEPING FEDERATION, INC.

Mr. Chairman, I am Frank Robinson, secretary of the American Beekeeping Federation, Inc., and I appreciate the opportunity to present these comments regarding the proposals being considered by the committee relative to a Honey Price Support Program.

Without taking much time or boring you with statistics I would remind the committee of the contributions honey bees and the beekeeping industry make to U.S.

agriculture. I am, of course, referring to the pollination activities of the honey bee. The U.S. Department of Agriculture has estimated that the value of those crops whose production is directly or indirectly dependent on insect pollinators, or whose yields or quality are improved by adequate pollination, exceeds $19 billion per year. One fact that is frequently overlooked, particularly while this country must contend with large surpluses of many commodities, is that many of the crops which depend on insect pollinators are fruit, nut and vegetable crops. None of which are crops where large surpluses are a problem. Yet the value of these crops and the jobs their production creates make them tremendously important to this country's economic well-being.

The ERS/USDA Agri. Information Bul. No. 465 states that there are only 1,600 commercial beekeepers in the U.S. and that they, and a few of the larger part-time beekeepers, are the main participants in the Honey Price Support Program. To imply that only this small number of individuals benefit from this Honey Program ignores the number of individuals or families that may be involved in one commercial beekeeping enterprise. All of these, not just the owner, are benefited by the Honey Loan Program. It also ignores the benefits the general public derives from a large, healthy beekeeping industry.

Although few in numbers the commercial beekeepers provide most of the pollination involved in commercial crop production. Pollination provided by bees belonging to most hobbyists beekeepers is usually limited to home gardens or urban ornamental plants.

Although they provide most of the pollination services, commercial beekeepers mainly depend on the sale of honey for most of their income. To suggest that this dependency might be changed by "increasing pollination fees" ignores the fact that bees are free flyers and may cover large areas during their foraging flights. In situations where everyone is growing the same crop, determining whose bees are pollinating whose fields, and who is benefiting, and how much, is not always a simple matter.

I should also remind this committee that the U.S. beekeeper has not been responsible for, nor had any control over, those factors which have led to the large acquisitions of honey by the CCC/USDA in recent years. Worldwide economic conditions; the strong U.S. dollar; the free access to the U.S. market; and the need for hard currency by many countries struggling to keep their foreign debts afloat, have all combined to make the United States the dumping ground for the world's surplus honey. The comparatively high support price for honey has not stimulated any increase in domestic honey production. Quite the opposite since both the number of colonies and the total honey production in the United States have declined in recent years.

This organization and its members are definitely concerned about this country's deficits and we recognize the need to cut government spending as much as possible. As the members of this committee are aware we have led the effort to establish a "self-help" promotion plan which we are confident can increase the consumption of honey in this country to the point where we will need all the available supply—domestic and imported. The enabling legislation was passed by Congress and signed by the President late last year, and we will soon request that the Secretary of Agriculture schedule public hearings on this program, as soon as possible. We hope a referendum can be scheduled in November or December 1985 and, assuming a favorable vote, the program could begin in 1986. While we are confident that the consumption of honey in this country can be increased significantly—it will take time! During this interval our domestic beekeeping industry must have some type of support program if it is to survive.

To eliminate the Honey Program as proposed in the administration's 1985 farm bill, or to convert to a "market oriented" program as proposed in the bill developed by the chairman of this committee, Senator Helms, would quickly lead to the bankruptcy of most commercial beekeepers.

"Market Price" today, if you disregard the ASCS/USDA support price, is probably between 38 to 42 cents per pound. A support price based on such figures would find our producers trying to survive at 1974 income while paying 1984 production costs. It can't be done!

The same ERS/USDA Bul. 465 referred to previously states on page 24 that, "The net effect of the honey program is that consumer prices are probably higher than they would be under no program." We question this statement and suggest that one only need look at honey prices in retail outlets.

While imported honey (costing approximately two-thirds of the domestic support price) has made up the major share of honey found in retail outlets for several years there has been no significant decline in retail prices. Clearly any benefits of cheaper imported honey have not been passed on to the U.S. consumer.

In concluding this statement we urge that this committee consider two questions before reaching any decision about a Honey Program:

1. While the present program is costing the taxpayer a considerable amount, it is much less than they would pay in higher food costs, loss of jobs and loss of tax revenues, if commercial beekeeping ceases to exist in this country.

2. The most obvious solution to the present over-supply of honey and the cost of continuing a Honey Program would be for Congress to adopt measures to limit the quantity of honey coming into this country. Between 1980 and 1984 honey imports increased from less than 50 million pounds to more than 130 million pounds annually and are expected to continue to increase. Increased tariffs and/or appropriate quotas would make the U.S. producer competitive in the domestic market; would end the ASCS/CCC acquisitions of honey and should not result in any increased cost to the consumer.

We appreciate the opportunity to present these comments and if there are any questions, I will be glad to try to answer them. Again, our thanks to you, Mr. Chairman, and to the other members of the committee, for your interest in the beekeeping industry's problems.

STATEMENT OF STEPHEN T. GILLMOR, ON BEHALF OF NATIONAL WOOL GROWERS ASSOCIATION

Mr. Chairman and members of the committee, my name is Steve Gillmor. I am chairman of the board of directors of the National Wool Growers Association which consists primarily of 30 State and regional sheep producer organizations. It represents approximately 90 percent of the Nation's wool and lamb production.

I live in Salt Lake City, UT. and I have a desert-mountain sheep operation. Sheep are my only source of income. One of my sons ranches with me and we have some irrigated hay land. I have just recently completed a term as the Commissioner of Agriculture for the State of Utah. I am intimately familiar with many aspects of western agriculture. I appear before you today as a member of a delegation of sheepmen and others to request an extension of the Wool Act in its present form—a successful and unique law which has served its purpose very well and deserves to remain in effect.

THE NATIONAL WOOL ACT HAS SERVED PRODUCERS

The National Wool Act is now in its 30th year of operation. It enjoys the unqualified support of all major segments of the sheep and wool industry from the producer to the manufacturer. During its life, the Act has been supported by both Democratic and Republican administrations.

Under the National Wool Act, growers sell their wool through normal marketing channels. At the end of the marketing year, the average price received for wool sold during the period is determined. Payments at a single percentage rate are then made to bring the national average price received by all growers up to that incentive level. There is an indexed formula in the Act to determine the incentive level. This level is applied to the net sales proceeds received by each grower to determine the amount of this incentive payment. This is the market-oriented feature of the Act. By making the payments on a percentage basis, growers are encouraged to improve the quality and marketing of their wool in order to obtain the best price possible, because the higher the price the individual gets in the free market the greater his payment. I want to address other unique aspects of the Wool Act also.

THE BIRTH OF THE WOOL ACT

It was February 19, 1954, and the Senate Agriculture Committee had convened to consider S. 2911, the National Wool Bill. In 1953, the U.S. Tariff Commission was called on to report to the President their recommendations on what to do to assist this troubled industry. President Eisenhower also asked the Department of Agriculture for a similar report.

The Tariff Commission and USDA reported to the President: Tariffs are too low on wool, and the industry is being severely harmed. Raise the tariffs by 10 cents per pound and by as much as 50 percent of ad valorem.

The President refused the Tariff Commission rcommendation because he did not want to ire our international trading partners nor raise the price of consumer goods. Instead, he proposed a price support program that would use portions of the tariff money collected on wool as payments to U.S. producers when the price they received for their wool did not reach a reasonable level (as determined by USDA).

In fact, at the hearings, the most popular feature of the Wool Act concept was that the tariffs could be used to underwrite the payments to producers to compensate them for lost markets due to imports.

Let me quote from the hearing record in 1954: ". . . under no condition would this matter of handling the wool cost the Federal Treasury a dollar other than that which comes from the 70% of the tariff on imported wool. . . The feature I like about this act is that it won't cost the taxpayers one dime."

The cost of the program is offset by duties collected on imported wool. The Wool Act generates revenues to the U.S. Treasury, far in excess of program costs, that would be lost were the Wool Act terminated.

Although woolgrowers are entitled to payments of up to 70 percent of the tariffs collected, the payments have averaged only 35 to 40 percent of the available amount over the past several years. In fact, of the over $3 billion collected for tariffs and ad valorem taxes, over two-thirds has gone into the General Treasury to fund the cost of the Government. The Wool Act has been a real moneymaker for the Government. Since the tariffs were retained to fund the Wool Act, it is logical to assume that if the Wool Act were eliminated, the tariffs would be eliminated too—because there is no reason to retain tariffs on a commodity that would likely be out of production in the United States. Therefore, eveybody would lose—the consumer, the Federal Government, and the sheep producers. We don't want that to happen!

THE WOOL ACT AND THE CONSUMER

It is often argued that the tariffs on wool raises the price of wool products coming into the United States. Mr. Chairman, there is roughly between 3 to 4 pounds of wool in a man's 100 percent wool suit. Even if that suit was made completely out of imported wool, the retail price differential would be between 30 and 40 cents! In other words, the tariff is less than one-half of one-tenth of 1 percent of the cost of a man's suit. We don't feel that the wool tariff is a substantive consumer issue.

The Wool Act also has a number of favorable consumer provisions. It uses tariffs to reduce the cost of raw materials for our domestic mills.

For example, the producer payments, underwritten by the tariffs, as I explained previously, provide up to 50 percent of the price received by the producer. The other half is paid by the buyers. This means that the mills get their raw U.S. materials at half the price they would have to pay without the Wool Act—and the importing countries pay the other half. Obviously, this means a less expensive product to the consumer from the domestic mills.

Several recent studies of the Wool Act have concluded that wool has been significant in slowing the decline of the sheep industry in the United States. Although sheep numbers have dropped, the studies show, and ranchers will verify that the incentive payments have been one of the primary positive influences on farmer-rancher decisions to remain in the sheep business. The Wool Act prevents the U.S. consumer from becoming a captive of the importing countries. As an example, in a recent incident, when the last manufacturers of velveteen in the United States shut down, Japan announced a 33 percent price hike on their imported velveteen the following day. U.S. production of wool provides a competitive situation from which the consumer benefits.

THE WOOL ACT AND THE MILITARY

Today, our leaders are extremely aware of the importance of wool, and for its immediate and assured supply in case of conflict. Col. Kenneth W. Sheed, U.S. Air Force Chief of Clothing, recently told the American Wool Council:

"You are aware of the many applications of wool through analysis; I am aware of their applications through personal use. Whether it is in the Artic or high-level flight, I have personally judged the effectiveness of wool garments. Our Nation depends upon you to take pride in your individual efforts and produce the very best product you can.

"If, God forbid, our Nation should be faced with another conflict in the future, wool will be as important then as it has been in the past.

"The development of modern aircraft and sophisticated equipment will never negate the need for the personal protection and comfort that wool can provide."

Former Senator and chairman of the Senate Armed Services Committee, John Tower, remarked last year:

"While it is true that wool blends are being used more often (in the military), this does not undermine the critical need for adequate domestic supplies of wool . . . the

Wool Act has done its job in allowing our Nation to be independent of foreign sources of wool in case of conflict. This, in my opinion, is reason enough to continue the Wool Act and does not justify reducing the act to the point that we become dependent on foreign sources of wool, which may be cut off in time of war. In light of the problems faced by Britian as it recently faced a shortage of cold weather clothing while engaged in the Falkland Islands, I feel it is important for us to remain committed to our domestic industry. Wool remains vital to our Nation's Armed Forces, and a domestic supply is essential. As chairman of the Senate Armed Services Committee, I shall continue to support this concept."

Moreover, recently in the Falkland Islands, the British suffered from cold because of a lack of wool, and British sailors died needlessly because their ships were floating fire traps. This was the conclusion of an investigation conducted by New Scientist Magazine.

One of the most glaring mistakes (according to their report) was that British sailors were wearing polyester uniforms that melted on to their skins. On some ships that were hit, sailors fought fires wearing "number six" tropical dress uniforms made from white cotton, even though it was below freezing. They had to wear this clothing because their standard issue, made of synthetic fibers, melted and stuck to their skins in fires. In the U.S., the Navy Safety Center concluded that clothing made from 100 percent polyester poses a serious burn hazard because it melts and clings to the skin when exposed to temperatures in excess of 500 degrees Fahrenheit. The Center also learned that, short of melting, polyester also has enough heat retention properties to convert a first degree burn scald into a second degree burn.

Senators, Congressmen and professional people military people agree that an available domestic supply of wool is essential in the event of a military conflict where adverse weather could be expected.

Right now the United States is trying to rebuild its military defenses, to deter our enemies from aggression. Part of that military preparedness is our ability to sustain a cold-climate military action. There are some who feel that the United States could import whatever wool we might need in case of war. But relationships between countries change and the recent refusal of New Zealand, a major wool exporter to the United States, to allow our ships into their harbors points out how tenuous international relationships really are. If it makes sense to spend several billion dollars to build the MX missile to assure our ability to defed our country, then it also makes sense to transfer one hundred million dollars from tariff collections to the U.S. sheep producers to insure a domestic supply of wool for military purposes.

THE WOOL ACT AND THE SHEEP PRODUCER

Throughout America there are thousands of rural communities that thrive upon the agricultural economic base that surrounds them. These main street communities don't have defense projects to feed their economy. They don't have Government complexes to employ people. They don't have aerospace production and they don't have contractors who supply Uncle Sam with his furniture and fixtures. What they do have is a phalanx of surrounding independent businessmen that derive their livelihood from the natural resources indigenous to the area. These are America's farmers and ranchers, and they are the critical life blood to so many rural villages across our great land. These people pay the taxes to build schools, hospitals and roads. They administrate county government. They feed the wildlife and preserve the environment. One hundred and twenty five thousand of these small businessmen are sheep producers and 62 percent of those producers receive a portion of their income from the incentive payment. These same people help support a $30 billion textile industry in the United States. They help support a labor force of thousands of people. And, in many cases, these people are employed in jobs that would not otherwise be available except for the existence of the sheep industry.

Up to 30 percent of the income from a sheep is derived through the sale of wool with the remainder coming from the sale of lamb. The wool payments are a substantial portion of most farm and ranch income and enable the wool grower to plan and market his "crop" in an orderly fashion. It enables the grower to plan his finances in cooperation with his bank and meet cash flow demands attendant to today's farm and ranch fiscal management.

The incentive program stimulates good marketing practices because the producer receives a higher level of payment if he markets a higher quality wool clip is embodied in this legislation. It is another important and unique feature of the Wool Act. Unlike other commodity programs, the Wool Act does not create surplus storage problems and export subsidies are not necessary since nearly all the U.S clip is consumed in the United States.

The payments to producers are relative to the unit cost of output whether a grower has a few or many sheep. A payment of 50 cents a pound is the same in Montana, Indiana, or Texas. Limiting payments then becomes a discriminatory action against producers who, through management and efficiency, increase their production. A "cap" placed on payment would reduce the overall payment level by a small percentage. But it would unfairly impact wool growers whose major source of income is a sheep enterprise. The incentive payment achieves the same equity as many forms of tax payments—the more you make or spend, the more you pay and with the wool program, the more you produce and the better the quality, the larger the incentive payment.

Throughout past administrations, and within the current debate, there is concern about rural decline and the family farm. There is no finer rural development program than the National Wool Act because of the manner in which it transfers tariff payments to main street America. This feature in itself is enough to justify renewal of the act.

THE WOOL ACT AND PRODUCT PROMOTION

Another unique feature of the Wool Act is the self-funded promotion program. Wool producers voluntarily assess themselves a portion of their incentive payment to fund a national promotion and advertising program. This is carried out through the American Sheep Producers Council in Denver, CO. ASPC operates on a budget of over $4 million annually and the wool incentive program has served as the vehicle for voluntary collection of those self-help funds.

The 28-year old promotion effort directs information about sheep products to both consumers and merchandisers through a network of field representatives and media outlets. Other programs include industry education and information programs. The discontinuance of the Wool Act program would deprive the industry of a method to equitably assess growers for promotion funds.

In conclusion, I again raise a point which I have assumed today that you all already know and that is that the National Wool Act is not funded at taxpayer expense. The money comes from a portion of the duties collected from wool imported into this country. In a sense, the source of the funding is foreign wool. That means that as our production increases and imports fall, our incentive program is phased out. Most of my sheepmen friends and I are aware that the Wool Act is not perpetual. There may come a time when U.S. sheepmen can supply the need of our domestic mills and the imports of wool will cease. At that point, our nation will have achieved another measure of self-sufficiency. Strong demand should insure a stable and fair market price for our products, and the wool incentive program will automatically self destruct. I would welcome that happening. In the meantime, however, the Wool Act has proven its effectiveness. Sheep production is now a growth industry. More than 125,000 persons earn all or a portion of their livelihood from the production of lamb and wool. Millions of consumers enjoy the fruits of their labors.

The sheep has nourished and clothed man from Bibical times to the present. It is an animal that is just as well suited to our energy and resource conscious society today as it was to those ancient generations.

If wool were created from a test tube today, it would universally be hailed as a miracle fiber. Scientists have tried in vain to copy the natural crimp in wool which gives it much of its unique warmth in winter, coolness in summer, remarkable retention of dyes and super strength and resiliency. And, with the price of petroleum based polyesters increasing, synthetics are costing more to manufacture. In fact, the Japanese Government's Science and Technology Agency reports that it requires more than twice as much energy to produce spun synthetic yarns than it does to manufacture wool material. And, in a report compiled by Dr. Tom Wickersham, noted animal scientist from Iowa State University, sheep production is one of the least petroleum consumptive enterprises in agriculture. Wool can help our nation save energy.

Finally, as Congress and the administration take the needed steps to improve our Nation's defense posture, it is important to remember that wool is classified as a strategic commodity. In times of crisis, it would be calamitous to have the military means to respond, but not the clothes to put on our soldier's backs. Wool is, of course, vital in cold climates, but even for warmer regions, wool currently comprises 45 percent of military uniforms. Wool is vital to our Nation's defense.

I hope you will favorably consider renewal of the Wool Act in this session of Congress. If you do, we producers will do our best to meet this country's awesome demand for quality fiber and meat at a reasonable cost.

[The following material was supplied by Fred Campbell, Southwest Wool & Mohair, Eden, TX:]

BACKGROUND AND SITUATION REPORT, THE WOOL ACT OF 1954

STATEMENT, PURPOSE, AND SCOPE

The Administration and the USDA have developed and proposed legislation to replace the law currently governing agricultural commodity programs as well as the authorities for agricultural research, associated programs and foreign food aid programs. This legislation is titled "The Agricultural Adjustment Act of 1985" (AAA of 1985).

The entire text of the AAA of 1985 deserves consideration. However, the object of this discussion will be the treatment of the Wool Act of 1954, as amended, with special emphasis on the treatment of mohair under the AAA of 1985.

BACKGROUND

The Wool Act of 1954 was passed as a result of the severe impacts on the sheep and goat industry caused by foreign policy considerations which provided minimal tariffs on low-priced, subsidized imports. In addition, a domestic supply of wool and mohair was considered to be desirable in terms of meeting strategic needs and providing for the general economic welfare of the United States.

Upon passage, the Congress of the United States placed into effect a most unique and effective agricultural program which addressed the concerns of all parties involved. Especially notable are the following points.

A. The act provides that mohair producers receive a payment when market conditions do not reflect such factors as actual cost of production, interest rates, and inflation.

The Secretary of Agriculture determines annually a reasonable incentive payment level after reviewing past and present market activities, market trends, and application of the best available forecast data. The potential of a market oriented incentive payment that mitigates adverse market conditions gives producers the ability to make both short and long term flock management decisions.

However, the intent of the Wool Act was not to simply provide funds to producers. Rather, the Congress expressed its determination that both the quality and quantity of the mohair be increased. To accomplish this goal, a formula was adopted which functions as an incentive by recognizing successful efforts in the areas of breeding programs, product market preparation, and marketing. The producer who does a better job of production receives a larger incentive payment, thereby permitting continued improvement.

B. In 1954, Members of Congress, the President and the sheep and goat industry agreed that the Wool Act should not be a taxpayer expense. Rather, they agreed that the act should address both the industry's and the nation's needs and shift the program cost to those entities responsible for adverse market conditions. To accomplish this goal, the Congress linked the total annual program cost to the revenues generated by tariffs collected on low-priced subsidized imports. The concept of an incentive payment import tariff revenue link is an important aspect of the Wool Act.

Since 1954, $3.6 billion has been collected as import tariffs. Of this amound, $2.2 billion has been retained in the General Revenue Fund of the U.S. Treasury. Only $1.4 billion has been paid to wool and mohair producers.

The Wool Act allows that an amount equal to 70 percent of the tariff revenue could be paid to the producers. To date, only 56 percent of the allowable 70 percent of tariff revenues have been paid as incentives to producers. The Wool Act has been administered by the USDA with attention given to the original intent of the legislation and within the bounds of the incentive payment—import tariff revenue concept established in 1954.

C. To further ensure the effectiveness of the Wool Act and to provide an element of self help, the act permits the Secretary of Agriculture to enter into agreements with producer groups for the purpose of conducting mohair advertising and promotion programs. The act recognized that an increased quantity and quality of mohair served no purpose unless market development, market penetration, and market protection activities occurred. In accordance with the act, a producer funded organization conducts activities on behalf of mohair producers. This group is subject to oversight and review by the USDA in order to ensure effectiveness and adherence to the intent of the act.

The Wool Act of 1954, as amended, was enacted because of, and in recognition of, the sheep and goat industry contribution to the general welfare of the U.S. economy. It is an example of sensible legislation designed to accomplish specific goals.

PROGRAM ANALYSIS

As stated, emphasis of this discussion is the treatment of mohair in AAA of 1985. Perhaps the best recommendation for mohair in AAA of 1985 would be that of an adage which states "If it isn't broken, don't fix it."

Attached as Enclosure One (1) is a USDA, ASCS released document detailing the history of the mohair incentive payment program. This document shows that incentive payments of mohair have been made only 11 times in 29 years. Incentive payments have totaled only $76.2 million, while the value of mohair marketed by the producers and, subsequently, to the U.S. economy has been $606.3 million.

Although the average market prices received by mohair producers has decreased 14 times in 29 years, incentive payments were made on only 7 of the 14 instances. Ths amount of incentive payments made on those seven instances totaled $55.4 million or 72 percent of the total amount paid to mohair producers as incentives. These payment occurred between 1962 and 1982. The payments for the 1965, 1966, 1967, 1970, and 1971 market years totaled $37.8 million, or 49 percent of the total amount paid to producers as incentives. During the period of 1965 through 1971 mohair incentive payments were the major factors in the survival of the U.S. mohair industry. The emergence of manmade fibers severely affected the world demand for mohair. In 1971 and 1972, producers were forced to slaughter significant numbers of goats due to disastrously low prices. The decrease in prices received coupled with the downward movement of demand caused producers to seriously look for answers about domestic and international markets.

In 1969, producers agreed that market development and promotional efforts were needed if the U.S. mohair industry intended to remain sound. The industry formed the Mohair Council of America and for the last 16 years producers have funded Council efforts by deductions from incentive payments when made or by voluntary contributions when incentive payments were not made. With the added dimension of market development efforts, the trends of decreasing production and declining price have been reversed. Analysis of market years 1969 through 1983 reveals that mohair production decreased dramatically from 21.2 million pounds (1969) to 8 million pounds (1977) and then increased to 10.6 million pounds (1983). This increase has been due to steadily improving world demand and the stabilizing effects of the Wool Act incentive payments.

The average market price received by producers has generally improved during the period of 1969 through 1983 with a low of $0.39 per pound in 1970 and a high of $5.10 per pound in 1979.

The value of mohair marketed has varied based on quantity and quality. However, an increase has been constantly experienced as producer efforts in breeding, product preparation, and promotion have affected buyer acceptance of their product.

JUSTIFICATIONS

It is important to realize that there are benefits enuring to mohair producers and the general public which are not definable in terms of dollar incentives. The following three areas can be considered collateral benefits attributable to the positive effects of the Wool Act.

A. *Land Management.*—One of America's most important assets is its vast and varied land mass. Critical to a balanced approach of land utilization is the proper management of various terrains and plant resources.

Angora goats are unique in that they utilize that portion of plant resource known as browse. Browse is considered a water wasting segment of plant resources. Angora goats utilize low quality range plants while producing a highly desirable fiber. They contribute to water conservation by controlling brush through their dietary habits. These facts are often over-looked benefits of the Wool Act.

Angora goats can adapt to various terrains and resulting flock management practices. The traditional producing area of Angoras is considered to be a geographic area of Texas approximately the size of the State of Pennsylvania. However, goat numbers and producers have developed flock management practices which allow effective use of small acreage farms or marginally productive range lands. Currently Arizona, New Mexico, Michigan and Utah producers have proven that Angora goats can thrive and produce mohair in land areas otherwise unsuitable for effective agricultural production. The income generated from mohair sales is important to the

Indian nations of Arizona and New Mexico. Northern States producers have developed flock management techniques appropriate to the cold weather areas.

B. *Export product.*—The United States is one of three important mohair producing nations. Virtually all of the United States production is exported for processing and manufacturing in Europe and Asia,. The value of mohair exports during the life of the Wool Act is estimated to be more than $600 million. Mohair is highly desirable in the world markets and has contributed to foreign sales, thus enhancing a favorable U.S. balance of trade position.

C. *Employment.*—In addition to the nearly 10,000 ranch families in the United States directly employed in the production of mohair, an estimated 25,000 additional U.S. jobs are supported by the production, warehousing, and marketing of mohair. Employment in the areas of banking, animal health, research, transportation, promotion, advertising, and manufacturing are also supported to some degree by mohair production.

SUMMARY

As stated previously, the Wool Act is an example of sensible legislation designed to accomplish specific goals. The act, as written and with the unique incentive feature, has provided the United States mohair industry the following:

A. Insulation from price manipulation by foreign buyers.

B. The economic stability to continue flock management practices resulting in improvement of the quantity and quality of U.S. mohair production.

C. The ability to utilize to a maximum degree, range lands which might otherwise remain as marginal or non-productive.

D. The contribution to foreign sales which reduce any unfavorable U.S. balance of trade position.

E. The ability to sustain and create employment opportunities.

There appears to be no reason to discontinue, change or expand the Wool Act as it has performed exactly as the original legislation intended. Mohair producers have responded to the requirement of the act and the USDA has effectively administered the provisions of the act.

The Wool Act has been wrongly criticized by some for no other reason that to cut Federal expenditures. They fail to acknowledge that the act has generated excess revenue over expenditures, they fail to acknowledge that industry related jobs generate tax revenues; they fail to acknowledge that proper utilization of agricultural lands contributes to the economic and environmental well being of the United States and they fail to acknowledge that cooperation between the Government and private sector can be mutually beneficial.

The Agricultural Adjustment Act of 1985 appears to intend that every aspect of agriculture be treated the same. The proposed legislation "would put producers on an equal footing by providing the same relative level of income and price support after a five year transition period." The proposed legislation would place maximum "caps" on incentive payments.

In short, the proposed legislation appears to be an attempt to limit expenditures, simplify bookkeeping and remove, as rapidly as possible, governmental involvement in agriculture.

The mohair industry of the United States, due directly to the unique features of the Wool Act, is one of the best examples of a segment of agriculture that has been improved by government cooperation. The Wool Act has allowed producers, at no cost to taxpayers, to improve the quantity and quality of their product, in response to world demand and in spite of foreign price manipulation.

Because mohair is sold on world markets the Wool Act offers some degree of protection to United States producers who must compete with foreign producers. Overseas producers are protected by governments that assist and subsidize their production. The South African Mohair Board has access to low interest funds to pay producers established floor prices. The Board also forces all production through a single channel marketing system. In Turkey, growers are provided floor prices through a government operated pooling and purchase arrangements.

In order to compete on a fair trade basis domestic growers need protection in the volatile environment of the international mohair markets. Currently the Wool Act provides that protection and allows the U.S. mohair industry a significant measure of stability.

The mohair producers in the United States hope that Congress will continue to acknowledge the effectiveness of the Wool Act. They hope that Congreee will realize that criticism of the act are not based on any flaws in the legislation, rather based on influences outside the original legislation.

Mohair producers do not want nor do they see the need to make any change in the Wool Act. The act should be renewed, retaining the incentive feature, the tariff revenue link and the concept that producers can conduct advertising and promotion programs. Change for the sake of standardization appears to have no real purpose and could irreparably harm a sound and growing industry.

MOHAIR—SUMMARY OF 1984 SUPPORT PROGRAM AND RELATED INFORMATION

Legislative authority.—The National Wool Act of 1954, as amended, was extended through December 31, 1985, by the Agriculture and Food Act of 1981.

Support level.—The amended Act provides that the support price for mohair be 15 percent above or below the percent of parity at which shorn wool is supported. For 1984, the price of mohair is supported at the same percent of parity at which wool is supported—78.2 percent. This calculates into a support price of $5.17 per pound for 1984.

Support operations.—Support of mohair prices is accomplished through payments to producers after the year is over if the average price received by all producers in the open market is less than the support level. The support level for each calendar year applies to mohair marketed during that calendar year.

Applications for payments are filed with ASCS county offices not later than January 31 following the year in which the mohair is marketed. County offices make payments in April on mohair marketed in the previous year when payments are required.

Payment method.—The average price on mohair sales becomes known soon after the end of the marketing year. Payments are based on the percentage needed to bring the average return (price received on mohair sales plus payments) received by all producers up to the support level. To determine an individual producer's payment, this percentage is applied to the producer's net proceeds from thesale of mohair.

The percentage method of payment encourages producers to improve the quality and marketing of mohair. The producers who get the higher market prices for mohair also get the higher incentive payments.

Payments.—No payments were received on 1972 through 1980 marketings because the average market price was above the support price. The payment rate on 1981 marketings, the first payment in 10 years, was 6.3 percent of each grower's market return. For 1982, the rate was 55 percent and for 1983, 14.2 percent.

Promotion program.—Deductions from mohair payments to provide funds for advertising and promotion programs on mohair and goats were approved by 78 percent of the producers voting in a 1982 referendum. The activities are carried out by the Mohair Council of America, an organization of mohair growers. The deduction rate is 4½ cents per pound of mohair. Deductions amounted to $520,000 for 1983 marketings.

MOHAIR

Year	Production [1] (million pounds)	Support price [2] (cents per lb.)	Average market price received by producers [3] (cents per lb.)	Mohair payment rate [4] (percent of market return)	Value of mohair produced (million dollars)	Government payments [2] (million dollars)
1955	16.9	70.0	82.2		13.9	
1956	18.2	70.0	84.4		15.4	
1957	19.1	70.0	83.7		16.0	
1958	20.8	70.0	72.3		15.0	
1959	24.1	70.0	96.4		23.3	
1960	24.5	70.0	89.7		21.9	
1961	26.4	73.0	85.6		22.6	
1962	27.2	74.0	71.4	3.6	19.4	0.8
1963	29.0	76.0	88.1		25.6	
1964	29.7	72.0	94.3		28.1	
1965	32.4	72.0	65.5	9.9	21.2	2.0
1966	29.6	75.8	53.7	42.1	15.9	6.5
1967	26.3	76.4	40.9	86.8	10.8	11.5
1968	26.0	77.4	45.2	71.2	11.8	10.6
1969	21.2	77.4	65.1	18.9	13.8	2.0
1970	18.0	80.2	39.1	105.1	7.0	7.8

MOHAIR—Continued

Year	Production [1] (million pounds)	Support price [2] (cents per lb.)	Average market price received by producers [3] (cents per lb.)	Mohair payment rate [4] (percent of market return)	Value of mohair produced (million dollars)	Government payments [2] (million dollars)
1971 [5]	14.9	80.2	30.1	166.4	4.5	10.0
1972	10.2	80.2	81.4		8.5	
1973	9.9	80.2	187.0		18.6	
1974	8.4	80.2	137.0		11.5	
1975	8.6	80.2	185.0		15.9	
1976	8.1	80.2	298.0		24.1	
1977	8.0	149.8	287.0		23.0	
1978	8.1	164.7	459.0		37.2	
1979	9.3	194.3	510.0		47.4	
1980	8.8	290.3	350.0		30.8	
1981	9.9	371.8	350.0	6.3	34.7	1.9
1982	10.0	397.7	255.0	56.0	25.5	16.8
1983	10.6	462.7	405.0	14.2	42.9	6.3

[1] Production in 7 States—Texas has produced 97 to 98 percent of the total with the remainder produced in Arizona, New Mexico, Missouri, California, Oregon, and Utah. Small quantities also have been produced in a dozen or so other States which are not included.

[2] Support prices and payments are for marketing years beginning April 1 for the 1955–62 period; 9 months April 1 through December 31 for 1963; and calendar years beginning 1964.

[3] Prices for 1955–56 and 1964 through 1969 are calendar year prices; prices for 1957 through 1962 are for April-March marketing years; price for 1963 is for the period April-December.

[4] Payment rate for mohair is expressed as a percentage and is applied to each producer's dollar return from the sale of mohair. For example, under the 1971 program, producers received $166.45 for each $100 received from marketing mohair.

[5] Beginning 1971, Texas only.

Notes:—For statistics for 1938 through 1954, see Mohair Commodity Fact Sheet dated March 1978.

N.D. LAMB & WOOL PRODUCERS,
March 25, 1985.

DEAR SENATOR ANDREWS: I am writing this letter because I am a sheep producer that is concerned about the renewal of the Wool Act. The renewal of the Wool Act is of major importance to the survival of the sheep industry. The United States sheep producer is at a disadvantage in the wool market because of factors that are beyond his control, there are two main examples. The first one is the very strong dollar which gives the imported wool a distinct advantage and secondly the highly subsidized wool from the countrys of Australia and New Zealand is hard for us to compete against.

I urge the members of the Senate to renew the Wool Act in its present form. There are several examples of the unique features of the Wool Act.

1. It's an incentive program where the payments are in proportion to what you received for your wool when you sold it.

2. The unique part of the Wool Act is that the supporting funds are raised from import tariffs. Also the payments to the producers can't exceed 70 percent of the tariffs collected, and in 30 years of the farm program the payments have never come close to that level. So, unlike other programs this has no cost to the taxpayer, in fact the difference between the tariffs collected and the payments made to wool producers has been a $2.2 billion dollar gain for the United States Treasury.

If the Wool Act does not pass it will have a direct result of more sheep producers going out of business, because of them not being able to compete against the strong dollar and subsidized imports. This will then bring us one step closer to being dependent on other countrys for our needs.

So for the survival of the United States wool industry and for the protection of the consumers, I urge the Senate to pass the Wool Act in its present form.

Sincerely,

DEAN SWENSON, *Vice President.*

STATEMENT OF ROBERT B. ROBINSON, PRESIDENT, CHAMBER OF COMMERCE OF HAWAII

On behalf of the Chamber of Commerce of Hawaii and its 2,600 member firms who employ approximately 40 percent of Hawaii's privately employed work force, thank you for the opportunity to submit testimony to this august body as it deliberates on the most effective and appropriate national farm policy for the United States.

The purpose of this testimony is to vigorously protest adoption of the administration's proposed "market-oriented" sugar provisions in its proposed policy, presumably based upon the principle of free trade and fair, honest competition, but which flies in the face of reality so far as the nation's domestic sugar producers are concerned. There is no free trade in sugar anywhere in the world today and, because of that, no honest competition.

Inasmuch as the sugar industry is Hawaii's largest farming activity and the state's second largest private-sector business, it is vital that the Congress understand the reality of sugar trade in the world in which we live.

Although more than 160 nations trade sugar with some degree of regularity, nearly three-fourths of world sugar production and two-thirds of consumption take place among 13 large nations. These 13 nations account for 72 percent of exports and 42 percent of imports.

All 13 directly intervene in their internal sweetener markets, and most regulate both producer and consumer prices.

For example: Millions of tons of sugar each year are sold under bilateral agreements assuring supplies or sales at established prices.

In the European Community, sugar farmers receive export subsidies. Internal prices are maintained at high levels to reduce consumption. Preferential prices with waived duties are paid for sugar from African, Carribbean and Pacific Countries, signatories to the Lome' Convention and the EC currently dumps about 4 million tons of subsidized sugar a year into the world sugar market, selling its sugar at prices far below its cost of production.

Australia, a major exporter, has a tightly controlled industry. All sugar produced is marketed by a quasi-governmental corporation that is the sole marketing agent, empowered to negotiate bilateral agreements.

South Africa, another large exporter, has a policy promoting exports. Producer price supports are provided by a price stabilization fund. Retail prices are controlled by government and are nearly double world refined sugar prices.

Argentina pays producers direct subsidies for export sugar and has compulsory export requirements.

These are but a few examples of many, revealing that free trade and competition do not exist in the world sugar trade.

Today there are about 20 million tons of sugar surplus to the world sugar market selling for only 4 cents a pound, a small fraction of the sugar's cost of production.

Sugar is unique among major American farm crops because it is the only major crop in which the United States is not self-sufficient. Currently, the nation must import between 25 and 30 percent of its sugar needs. With all other crops, the Nation not only is self-sufficient, but those crops are important export products of the United States.

The administration proposals would pit domestic producers against the subsidized world sugar market by drastically and abruptly reducing the level of sugar support and eliminating the Federal authority to impose quotas on foreign sugar.

This would be tantamount to writing-off the American sugar industry, an important segment of domestic agriculture. There can be no justification for this action which can only be characterized as reckless and against the best interest of the Nation.

What would be the impact on a national scale?

1. It would destroy all or part of the livelihoods of the 250,000 Americans employed in growing, processing and distributing the 5 to 6 million tons of annual domestic sugar production.

2. It will increase this country's already severe imbalance of foreign trade by at least another $2 billion a year.

3. It will make the United States completely dependent upon foreign sources of supply for the Nation's total sugar requirements, a step that could subject our economy to foreign manipulation.

4. It will cause the American consumer to ultimately pay more for sugar, for without our own domestic industry, the U.S. sugar needs will rapidly deplete the current world surplus. This is likely to cause another world shortage causing prices to skyrocket as they did in 1974 and 1980.

5. Finally, it will cause American consumers and taxpayers to be placed in the unacceptable position of supporting subsidized foreign sugar farmers while in their own country, men and women are being driven out of business by their own Government.

If America's sugar industry were inefficient, perhaps there would be justification to enacting legislation to destroy it. But that is not the case. If there were truly free trade and honest competition, American producers in general would be able to compete aggressively and well. But such is not the case.

Were the administration's proposed market-oriented policy adopted, it would be devastating for Hawaii's economy.

Hawaii has a comparatively high standard of living, and in 1982 only 13 other States had a higher per capita income. The primary reason for this is because Hawaii has developed a number of export activities which bring in new dollars to its economy. This is critical because the state has virtually no natural resources to exploit and to pay for the many products that it needs and must import.

Hawaii has two vital "invisible" export activities. One is sales to the Federal Government, primarily for defense spending, and the other is sales to overseas visitors (tourists). It also has two major "visible" exports—the sales of sugar and pineapple.

These activities, comprising the export sectors of Hawaii's economy, are of vastly greater strategic importance than local business activity because they create the flow of new dollars into the State economy. The loss of export-derived revenue, or a significant reduction thereof, would be irreplaceable and the impact would be felt throughout the State economy.

A 1984 study reveals that 26,000 jobs in Hawaii depend upon sugar for their existence. Were the industry to collapse, state employment would drop by 6 percent: statewide unemployment would climb from 5.5 to 11 percent and state general fund tax revenues would decline by 10 percent.

Three of Hawaii's four counties are highly dependent upon sugar. On Kauai, where 99 percent of the cropland is in sugar, unemployment would soar to 29 percent: on Maui, where 58 percent of the cropland is in sugar, it would climb to 18 percent; and on Hawaii, with 79 percent of its cropland in sugar, it would escalate to 21 percent.

The loss of jobs and income would be permanent since Hawaii has no alternative crops (unlike many Mainland U.S. areas) with which to replace sugar. Studies and attempts to develop successful alternate crops date back to 1851, without success.

In summary, the nature of the international sugar trade, the benefits to the national interest, and the potentially devastating consequences of adoption of the administration's Farm Act proposal, all strongly support continuation of sugar provisions in the next Farm Act. Therefore, we urge the Congress to reject the Administration proposal and adopt the present principles of sugar support as contained in the Agriculture and Food Act of 1981.

One final point: critics of the present sugar farm policy have stated that it is unfair to foreign nations that want to sell sugar to the United States market. This is not truly the case. In any event, the allegiance of our Federal Government would be primarily to the people of America in the first instance. Certainly that is the basic obligation of American citizens when they pledge their allegiance to this country.

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC, April 17, 1985.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition and Forestry, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Enclosed please find a copy of testimony on the honey loan program from Mr. Richard Adee of Bruce, South Dakota. Mr. Adee requested that I forward this testimony to you. I would appreciate it if you would include the testimony in the record for the 1985 Farm Bill.

For your information, Mr. Adee operates one of the largest honey businesses in the United States. Besides the honey business in Bruce, South Dakota, Richard operates the two largest honey processing plants in Kansas at Larned and Clay City. Richard also has one of the largest bee breeding operations in the South, loacted at Woodville, Mississippi and is very knowledgeable on honey issues.

I appreciate your assistance on this matter and look forward to working with you on the 1985 Farm Bill and on other agricultural issues.

Sincerely,

LARRY PRESSLER, *U.S. Senator.*

Enclosure.

STATEMENT OF RICHARD L. ADEE, VICE-PRESIDENT, AMERICAN HONEY PRODUCERS ASSOCIATION, BRUCE, SD

I am RIchard Adee of Bruce, South Dakota. I am vice president of the American Honey Producers Association, a nationwide organization of honey producers with voting members in 40 states. I am also chairman of the legislative committee for the American Honey Producers Association. I have served as president of the South Dakota Beekeepers Association and currently serve on the Advisory Board of that organization as chairman of taxation and legislative committee. I also serve on the executive board of the Mid U.S. Honey Producers Marketing Association. I own and operate Adee Honey Farms, which is a commercial beekeeping enterprise with over 32,000 colonies of bees under production in the States of South Dakota, Nebraska, Kansas, and Mississippi.

On Monday, February 4, 1985 the President sent to Congress his budget proposals for fiscal year 1986. In his recommendations on major spending reforms and reductions in the 1986 budget, we were dismayed to find that he proposes the elimination of the honey price support program. We appreciate the President's desire to balance the Federal budget, but to eliminate the price support program on honey would be a disaster for our industry.

The honey price support level is set by statute under the Agricultural Act of 1949. Honey is to be supported at not less than 60 percent and not more than 90 percent of parity. Seldom during the life of the program has it ever been supported at more than 60 percent of parity. Over the years the support price of honey has increased under the parity formula.

The administration has taken the position that the present price support level is causing an over production of honey with a consequent increase in cost to the government. However, contrary to what normally might be expected with a commodity, honey production has not increased but is actually declining. The 1984 crop of 165 million pounds was the lowest since USDA began keeping honey production records. (Fig. 1)

Figures bear out the administrations charges that the program is costing more money each year. Within a time frame of only 4 years, the cost of the program went from zero in 1979 to over $8 million in 1983. It is alarming when one considers that for the thirty years preceding 1979 the program cost to the government were relatively insignificant.

What is happening within the honey industry to cause an increase in the cost of the program? We have been completely swamped with imported honey. In 1975 the honey industry was alarmed by the rapid increase in honey imports. We saw almost a 100 percent increase in imports from 1974 to 1975. On December the 29th of 1975 the industry petitioned the International Trade Commission to investigate the honey imports to determine if they constituted serious injury or a threat of serious injury to the domestic honey industry.

The ITC acting upon the petition, determined that honey was being imported into the United States in such increased quantities as to constitute a threat of serious injury to the domestic industry, thereby entitling it to import relief. They recommended to the President import relief in the form of a tarriff rate-quota system for the U.S. honey industry. Unfortunately for the beekeepers of the United States, the President at that time "determine that import relief for honey is not in the national economic interest of the United States" and declined to act on the recommendation of the International Trade Commission.

Will E. Leonard, chairman of the International Trade Commission, in his report to the President, made the following observation; "The evidence in this investigation with respect to current import trends leads to the conclusion that honey imports into the United States will continue to increase. Foreign producers are increasing their productive capacities with the addition of new colonies, and some good leading suppliers of the United States imports have government programs to encourage the production of honey for exportation."

Chairman Leonard's predictions, based on the evidence collected during the hearing, turned out to be extremely accurate. The very next year, 1976, imports amounted to over 65 million pounds. This was a 40 percent increase in imports over 1975. During 1984 we imported 128.7 million pounds of honey. This is a 200 percent increase in imports over the 1975 period—the period the ITC found damage to the domestic industry.

In July of 1983 officials from the honey industry met with Secretary of Agriculture John Block. We requested a section 22 ITC investigation on honey imports. The Secretary turned us down. The entire Senate passed a sense of the Senate resolution asking the Secretary to initiate a section 22 investigation on imported honey. He chose to ignore their resolution also.

There is a direct relationship between honey imports and the amount of honey being taken over by Commodity Credit Corporation. (Fig. 2) There is the same relationship between imports and the cost of the price support program. (Fig. 3)

The survival of the bee industry in the United States is not only important to we beekeepers, it concerns every person in the United States. It is unique in this respect. Few people are aware of the importance of the honey bee in the production of food. It is something they take for granted. Like the sunshine and rain.

In USDA Agricultural Economic Report-519, we find the following:

"Bees are pollinators of more than one hundred agricultural crops in the United States. Many vegetables do not need bees or pollination to produce a crop, but they are grown from bee pollinated seed. Bee pollination is required to produce seeds of forage legumes such as clover and alfalfa, which in turn are important to the production of meat and milk products. All seed crops such as cotton, sunflowers, soybeans, safflowers, and rape benefit from bee pollination.

"The economic benefits of pollination are not due solely to honey bees. Pollinating agents include wind and a wide variety of other insects including wasps, butterflies, moths, beetles, and flies. Despite the wide range of insects capable of pollinating crops, it is estimated that 80 percent of crop pollination is achieved by bees. A few species of wild bees have been more or less domesticated for man's use, but the honey bee is still the only pollinating insect that can be easily managed in sufficient numbers, moved at will, increased easily, provided year around, and that is able to pollinate a wide variety of crops.

"Because of the number of crops that depend on or are benefited by bee pollination, consumer effects from reduced pollination services are potentially much higher than those from reduced honey production. An estimated $3.47 billion of fruits, nuts, and vegetables were produced in 1980 that require or benefit from bee pollination.

"Apiculturists and agronomists have not ventured estimates of the yield reductions that could result from inadequate pollination. However, the following example shows the potential magnitude of a one percent decrease in the production of fruit, nut, and vegetable crops that benefit from bee pollination.

"Because price rises more than production declines (in percentage terms), consumers total expenditure for the commodity increases when the supply is reduced. The welfare of consumers is affected in two ways. First, consumers welfare is reduced because they consume less of the commodity. Second, consumers pay more for the commodity, and thus (assuming income is constant) must consume less of all other goods and services; this is equivalent to a reduction in income.

"A 1 percent decine in production of the $3.47 billion of vegetables, fruits, and nuts produced in 1980 that rely on bee pollination would reduce consumers welfare by $87 million."

In 1980, the potential consumer effect from the 1 percent decline in the production of the preceeding crops directly attributed to bee pollination was equal to the entire cost of the honey price support program in 1984.

We know, in the absence of honey bees on those crops which definitely depend on them for pollination, we would see a much greater reduction than 1 percent. It could be as high as 25 percent or more. Not only would the quantity be reduced but also the quality would be reduced. If we factored all of the crops benefiting from honey pollination according to the value of those benefits to the consumer we would come up with benefits running into the billions. Especially when one consider that one third of the total human diet is derived directly or indirectly from insect pollinated plants.

A recent study by Dr. M.D. Levin, USDA Agricultural Research Service, estimated the value of the U.S. crops that require or benefit from bee pollination to be between $17.6 and $19.9 billion annually.

The administration, through Secretary Block, proposes that any short fall in income created by the termination of the honey price support program be made up by an increase in pollination fees.

In the summary of USDA Agricultural Information Bulletin 465 (Honey Backgrounder) we find the following conclusion:

"The impact of any significant reduction in pollinating numbers from changes in the honey price support program for pollination of these crops would depend on whether the beekeeper that provided honey bees for pollination can obtain a higher fee for their services. Since pollination costs are a very small part of the total cost of producing crops requiring pollination services, it is likely that rental fees could be increased to reduce or offset the economic affects of lower domestic honey prices for those beekeepers actively engaged in providing pollination services for a fee".

Dr. Robert McDowell in USDA Agricultural Economic Report 519 contradicts the Honey Backgrounder-Bulletin-465 with the following:

"With more beekeepers willing to provide pollination services, prices would probably decline for these products and services. Thus beekeepers will probably not be able to increase the prices they charge for these goods and services; in reality, prices will probably decline because of increased supplies. As a result of the decline in honey production, the market price for pollination services and their alternative products may actually decline, further reducing revenues and increasing financial losses.

"Like producers of many agricultural products, most honey producers are price takers not price setters. Domestic honey prices are unlikely to increase to the levels necessary to maintain profitability or to simply break even as long as imported honey is available to maintain current supplies."

We certainly concur with the summary remarks in the Honey Backgrounder USDA Bulletin 465. "If the honey price support program is terminated or support prices are reduced substaintially below the legislative minimum of 60 percent of parity, the reduced return from the sale of honey would likely force many beekeepers—especially commercial beekeepers—from the industry. The result could be a substaintial decline in the number of honey bee colonies and honey production."

I urge each of you to reject the administrations proposal to terminate the honey price support program. Our industry can not survive without it. Our industry is capital intensive and labor intensive and most of our competition comes from third world countries. We can not compete with these countries and still maintain a viable bee industry to supply the pollination needs of the United States.

The 1984 honey crop was the shortest since the USDA began keeping records. Unfortunately the Commodity Credit Corporation will be taking over close to 70 percent of 1984 crop. They will spend close to $88 million in the disposition of this honey. No other industry so vital to the economic and physical well being of our country has been allowed to be so dominated by imports.

The main criteria for establishing the price support program in 1949 was to assure a healthy bee industry that could supply the pollination needed by our national economy. If we are to fulfill this mission we must have protection from imports. If we were to allow no honey into this country below the 60 percent of parity support level of our price support program, we could get the government out of the honey business. We could go back to pre-1980 days when we had a price support program which gave us market stability with no cost to the government.

Unfortunately, cheap imported honey has not been a bonanza for the honey loving consumer. The lower prices of the imported honey have not been passed along. Someone is pocketing a handsome profit—either the honey bottler or the retailer.

In closing, I again want to urge each of you to oppose terminating the honey price support program. I would also like to urge you to restrict the unbridled imports of honey through the use of quotas, tariffs or a combination. If we do not have a healthy, viable bee industry in the United States, the American consumer will pay the consequences.

FIGURE 1

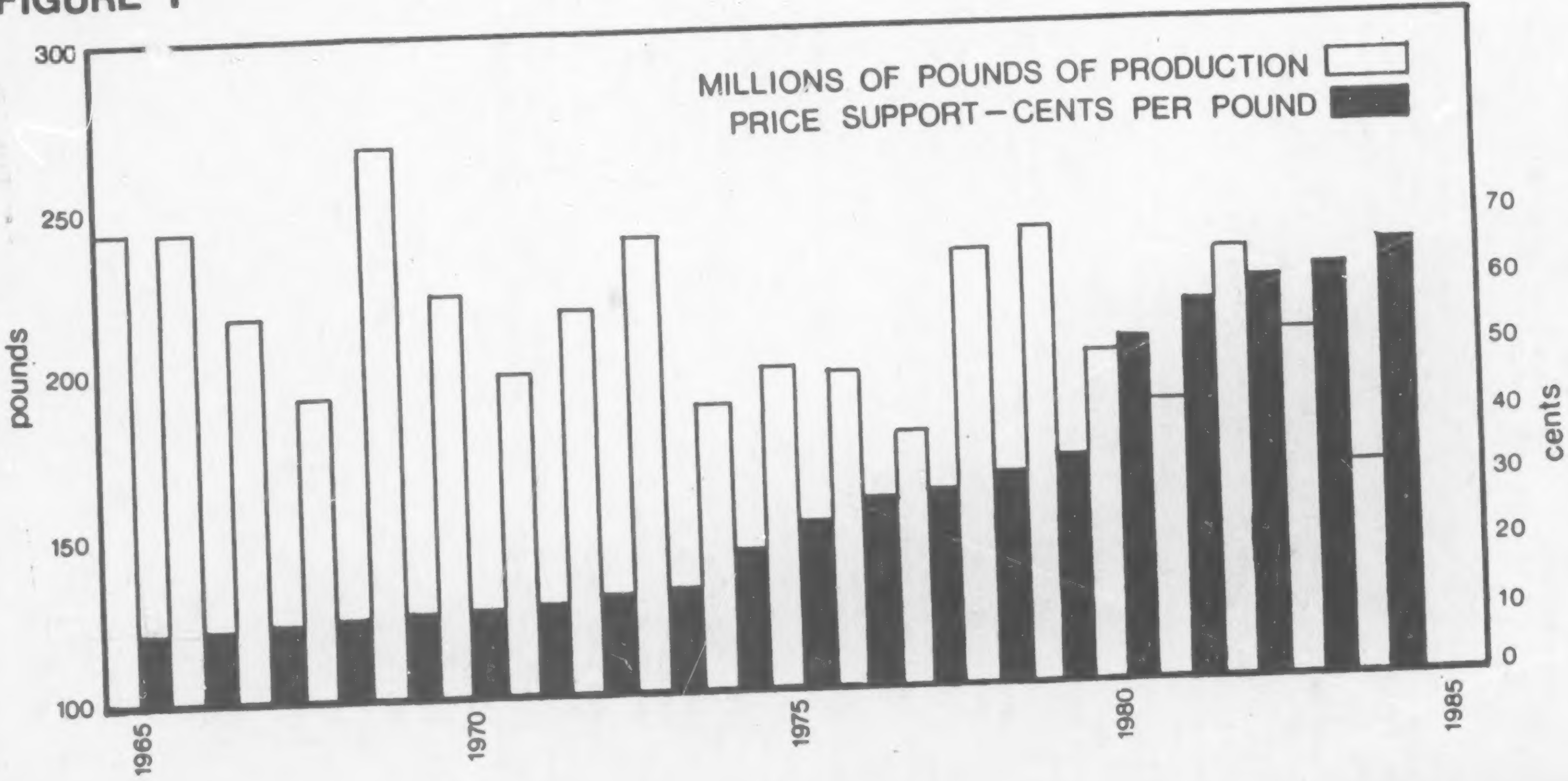

MILLIONS OF POUNDS OF PRODUCTION
PRICE SUPPORT—CENTS PER POUND
pounds
300
250
200
150
100
cents
70
60
50
40
30
20
10
0
1965
1970
1975
1980
1985

FIGURE 2

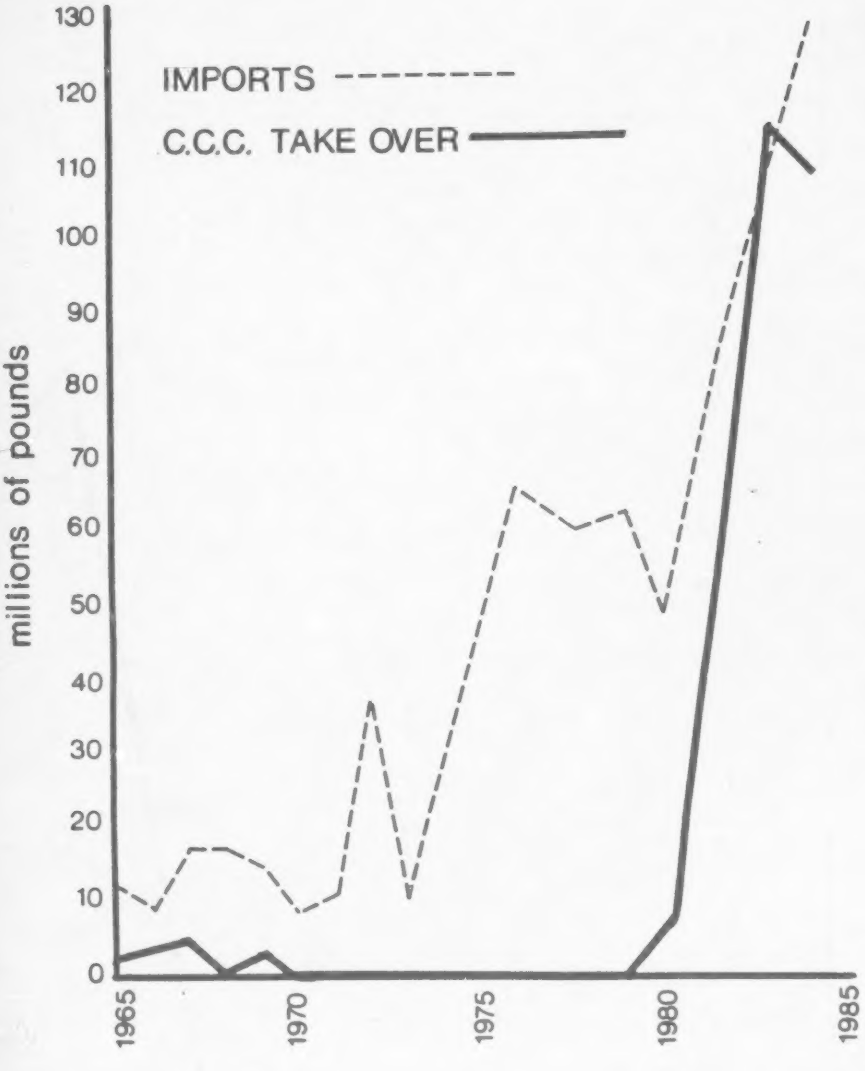
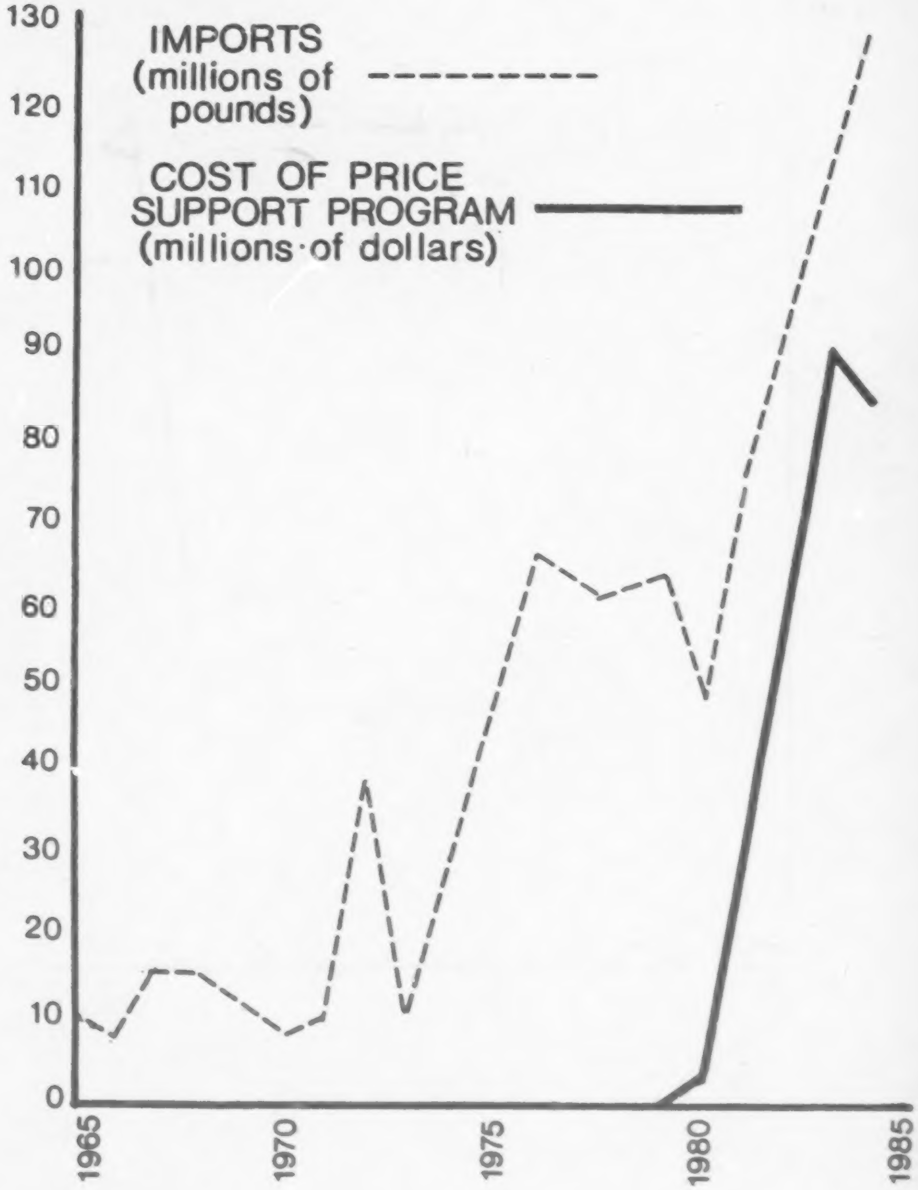

IMPORTS
C.C.C. TAKE OVER
millions of pounds
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1965
1970
1975
1980
1985

FIGURE 3


130
120
110
100
90
80
70
60
50
40
30
20
10
0
IMPORTS (millions of pounds)
COST OF PRICE SUPPORT PROGRAM (millions of dollars)
1965
1970
1975
1980
1985

STATEMENT OF GLENN GIBSON, PRESIDENT OF THE AMERICAN HONEY PRODUCERS ASSOCIATION

Mr. Chairman and members of the Committee, we appreciate this opportunity to present our recommendations for legislation that will vitally affect our industry. My name is Glenn Gibson. I have been a commercial beekeeper for more than 40 years. I am the President of the American Honey Producers Association, a nation-wide beekeepers' organization with members in 42 states. My office is in Minco, Oklahoma.

OUR MAIN CONCERN

For several years the Administration has recommended the termination of the honey loan program. Senate Bills 501 and 616 would kill the loan program and bankrupt the industry in short order. We oppose the provisions for honey in both bills.

The price-support for honey is permanent legislation established by the Agricultural Act of 1949, Title II, Section, which required that honey be supported at a level between 60 to 90 percent of parity. Justification for the program from the House Committee on Agriculture was:

". . . It appears obvious to the committee that, if these vitally important insects are to be maintained in sufficient numbers to pollinate our crops, the beekeeping industry must have immediate assistance. Until the time comes when beekeepers can receive an adequate return from pollination services, the committee believes that a price support for honey, as provided in this bill, is the only answer to this problem."

The program has served the industry quite well during the ensuing years with very little cost to the government until recently when a flood of cheap imported honey began to dominate our markets.

THE USDA UNREALISTIC POLICY

The Department's decision to terminate the honey loan program was made in 1981. We feel that the decision to terminate was based solely on the economic value of honey and beeswax—completely ignoring the pollination value of the honey bee to the environment. Also, we have an uneasy feeling about the accuracy of the data used. Neither do we feel that any effort was made to determine the future of the industry without the honey loan program. Import protection in 1981 would have saved the government more than $200 million.

Senator Helms attached a list of questions and answers to S. 501 which were supposed to justify the termination of the honey loan program. Subject list, which was prepared by the Department of Agriculture, contained loaded questions and evasive answers. I am attaching the list and copies of letters from Dr. Roger Morse, Cornell University and Dr. Elbert Jaycox, New Mexico State University.

For several years the Department of Agriculture has ignored our request to initiate a Section 22 International Trade Commission investigation on honey imports. We feel that the case is clear that imports are the problem. The attached charts and graphs tell the story. Import protection would return our honey loan to a no net cost and would bring in a little income from some of our unfair trading partners.

OUR RECOMMENDATIONS

1. Continuation of the honey loan program with import controls.
2. Legislation that would mandate a Section 22 investigation by the International Trade Commission.
3. A thorough investigation of the pollination value of the honey bee by the Office of Technology Assessment.

The Committee's serious consideration to our recommendations will be appreciated.

Attachments—
    List of Questions and Answers.
    Dr. Elbert Jaycox's Letter.
    Dr. Roger Morse's Letter.
    Table 1—Crops pollinated by honey bees.
    Figure 1—Honey bee colony count.
    Figure 2—CCC expenditures for honey.
    Figure 3—Honey imports, exports, and CCC takeover.
    Figure 4—Honey tariffs of Most-Favored-Nations.

HONEY PRICE SUPPORT PROGRAM [1]

1. *Question*. What are the major provisions of the honey program?

Answer. None. The authorities under permanent law for the honey price support program are repealed and no program is provided for under this legislation.

2. *Question*. What is the reason for eliminating the honey price support program?

Answer. There are several reasons for this decision. First, the program benefits very few beekeepers. An estimated 90–95 percent of the 211,600 beekeepers in the United States are hobbyists who own less than 25 colonies of honey bees. Most honey produced by hobbyists is consumed at home, given to friends and relatives, or distributed through local outlets. Another 10,000 own from 25 to 299 colonies, and together with hobbyists account for about one-half of the total colonies and 40 percent of honey production. For this second group, honey generally does not serve as the principal source of income. Commercial beekeepers number about 1,600 or less than 1 percent of the total beekeeping population. Yet, this group accounted for almost 60 percent of honey production.

Second, the honey price support program violates almost all free market principles by allowing the level of price support to be established above the market price. This has been the situation since 1980, when honey was acquired by the CCC for the first time since 1969. These forfeitures have occured simply because the support price is significantly above the average market price. As a result, too much honey is being produced to allow the market to clear at prices at or above the support rate. This results in a grossly inefficient use of resources that benefits relatively few (primarily 1,600 commercial beekeepers—less than 1 percent of all beekeepers) at a significant cost to taxpayers ($90 million alone in FY 1984).

3. *Question*. Won't the termination of the honey price support program result in a substantial decline in the number of honeybee colonies and jeopardize the pollination of our fruit, vegetable, nut and seed crops?

Answer. It is important to note that the bulk of the pollination of plants in the United States is provided either by wild bees or colonies managed by beekeepers who are engaged only in honey production and receive no pollination fee. Most of the pollination service that is for rent to growers in the United States is provided by the large commercial beekeepers. Hobbyists and part-time beekeepers are generally not engaged in providing pollination services for rent because they cannot economically justify investment in equipment to transport honey bees from one pollination site to another.

Research by USDA has revealed that pollination costs are a very small part of the total cost of producing crops requiring pollination services and could be increased to compensate those beekeepers who provide pollination services for rent. Likewise, increased pollination fees could also offset or reduce the economic effect of lower domestic honey prices for those beekeepers actively engaged in providing services for a fee.

4. *Question*. What if commercial beekeepers were not able to increase pollination fees sufficiently to offset or reduce lower domestic honey prices?

Answer. If it is determined that pollination services are in need of a subsidy, it would be more efficient to directly support those activities rather than do so indirectly through a costly and inefficient honey price support program.

5. *Question*. U.S. honey stocks totaled over 165 million pounds in 1983, or one-half of the world stocks of honey. An estimated three-fourths of the stocks are being held by the government. With the termination of the honey price support program, how would CCC dispose of those stocks?

Answer. Currently, CCC disposes of the majority of its honey stocks through food assistance programs operated by the Food and Nutrition Service in USDA. Only a small amount of honey is sold on the open market since, except for certain circumstances, the CCC is precluded from selling its honey at less than 105 percent of the acquisition cost. Thus, CCC would continue to provide donations of honey to nonprofit, emergency and domestic relief organizations. In addition, any disposal in the open market would continue to be orderly and operate under the present rules and regulations.

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[1] Questions and answers about terminating the honey price support program (Prepared by the U.S. Department of Agriculture). S. 501-Agricultural Adjustment Act of 1985.

College of Agriculture & Home Economics,
Department of Entomology & Plant Pathology,
Las Cruces, NM, March 16, 1985.

Jerry Cole,
President, New Mexico Beekeepers Association, North Bosque Loop, Bosque Farms, NM.

Dear Jerry: I have read the insert about the Honey Price Support Program in the Senate Congressional Record and can offer a few comments about it. It is difficult to believe that the U.S. Department of Agriculture would write such an incomplete and misleading set of questions and answers about a problem so vital to the beekeeping industry. Although the industry is small in comparison with other segments of agriculture, we deserve to be more fairly represented by the Department.

The honey price support program has been an exemplary one in stabilizing honey marketing over many years, with little expense to the government until recently. When it became evident that imported honey was flooding into the U.S. at reduced prices and with almost no tariff assessed, the beekeepers asked for help but none was forthcoming. The strong dollar and high tariffs of most honey exporting countries reduced our exports. At the same time, the price/parity relationship in the support program made the price unattractive to packers who could take advantage of the important honey.

Beekeepers are asking only that the help be continued until they can get a marketing and research program into operation, supported by producers' and packers' contributions. Immediate discontinuation of price supports will undoubtedly trigger bankruptcies among beekeepers.

Economists of the USDA are not realistic when they claim that beekeepers have only to raise the price charged for pollination to offset lower honey prices because pollination is only a small percentage of the cost of producing insect-pollinated crops. Beekeepers just cannot do it. If quarantines on moving bees persist to prevent the spread of honey bee tracheal mite, we will soon hear the economists change their tune and say that pollination fees have been increased unfairly in such states as California, Florida, and Texas.

We do not have an overproduction of honey in the United States; we have underconsumption, complicated by government actions that have created the overvalued dollar and a high support price with no tariff protection.

The U.S. Department of Agriculture should give the entire story to Congress instead of the half truths expressed in the insert in the Congressional Record. The Department should also help the beekeeping industry by allowing it some continuing support until a more permanent solution to the marketing problem is found. The beekeepers are working to help themselves and should be given some encouragement and fair treatment, not rhetoric that sounds more political than factual.

Sincerely,

Elbert R. Jaycox,
Adj. Professor of Entomology.

New York State College of Agriculture & Life Sciences,
Cornell University,
Ithaca, NY, March 18, 1985.

Mr. **Glenn Gibson,**
Executive Secretary, the American Honey Producers Association, Inc., Minco, OK.

Dear Glenn: There are serious flaws in the thinking put forth in the arguments for discontinuing the Honey Price Support Program in the Congressional Record for February 22, 1985 (S 1867-8). I will comment on the aspects of that statement that relate to pollination.

The first reason given for eliminating the program is that it benefits "very few beekeepers". It is later stated there are only 1600 commercial beekeepers in the country. The reason for supporting the beekeeping industry is not the value of the honey produced but that of the honey bees in agriculture.

The role of "wild bees" as important pollinators is vastly over rated in the statement. Wild bees are too few, and in most instances too small to be effective pollinators of commercial agricultural crops. While some of our agricultural crops are native to the United States and can be effectively pollinated by native wild bees over half of our plants are imported; alfalfa and birdsfoot trefoil being two such important legumes. The pollinating mechanisms of these and many other imported plants cannot be effectively tripped by most native pollinators. The only real success that has occurred in the use of wild bees as pollinators is in the northeastern states where two species (one of which is not native) are used for alfalfa pollination. Both have serious disease problems. Still, California, which produces more than 60 percent of the alfalfa seed in the United States uses honey bees exclusively for alfalfa pollination. It must be emphasized that the honey bee is the only pollinating insect that can be moved in numbers a few or a thousand or more miles. In an emergency situation, where, for example, bees may be needed overnight the honey bee is the only pollinating insect that can be relied upon.

The statement in the Congressional Record clearly overlooks the great need that American agriculture has for large numbers of honey bee colonies for short periods of time. An example is the pollination of almonds in California where over 400,000 colonies are rented for an approximate two-week period. The other 50 weeks of the year most of these colonies are not rented and a second pollination fee is available for an only limited number. The cost of managing this large number of colonies exclusively for almond pollination would be inordinately high. Honey production is an obvious alternative for the remainder of the year.

Every year we see American agriculture intensify; fields become larger and crops are increasingly concentrated in certain areas. Only a strong beekeeping industry supported primarily by honey production can provide the needed insects for pollinators.

Sincerely yours,

Roger A. Morse,
Professor of Agriculture.

TABLE 1—MAJOR CROPS POLLINATED BY HONEYBEES IN THE UNITED STATES [1]

Crop type	Crops dependent [2]	Crops increased [3]
Fruit and nut crops	Almond, Apple—most varieties, Apricot—some varieties, Avocado, Cherry, Chestnut, Grapefruit, Lychee fruit, Orange, Peach—some varieties, Pears—some varieties, Plum, Tangelo, Tangerine, Tung.	Apple, Apricot, Bushberry, Blackberry, Blueberry, Cranberry, Dewberry, Gooseberry, Huckleberry, Macadamia nut, Mandarin, Mango, Nectarine, Passion fruit, Peach, Pear, Persimmon, Raspberry, Strawberry.
Forage seed crops	Alfalfa, Alsike, Berseem, Bird's-foot, Ladino clover, Red clover, Sanfoin, Crownvetch.	Crimson clover.
Vegetable seed crops	Asparagus, Broccoli, Brussels sprouts, Cabbage, Carrot, Cauliflower, Celery, Chinese cabbage, Collards, Cucumber, Kale, Kohlrabi, Leek, Melon, Mustard, Onion, Parsley, Parsnip, Pumpkin, Radish, Rutabaga, Squash,.	Eggplant.
Vegetable crops	Cucumber, Melon, Pumpkin, Squash	
Oilseed crops		Flaxseed, Rape, Safflower.
Tree seed crops	Catalpa, Black locust, Red maple, Yellow poplar, Holly.	

[1] A few beekeepers charge pollination fees in certain parts of the country, but most honey bee pollination is done free of charge.

[2] These are unable to produce a commercial crop without cross-pollination.

[3] These generally produce a larger crop when honeybee pollinated.

Source: Economic Research Service, USDA.

Figure 1

Honeybee Colonies in the U.S., 1945-83

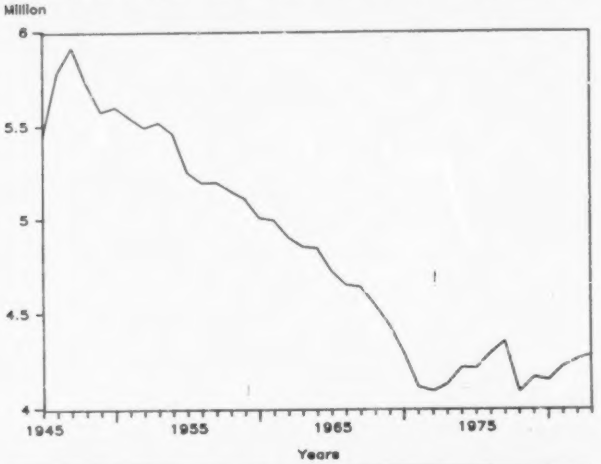
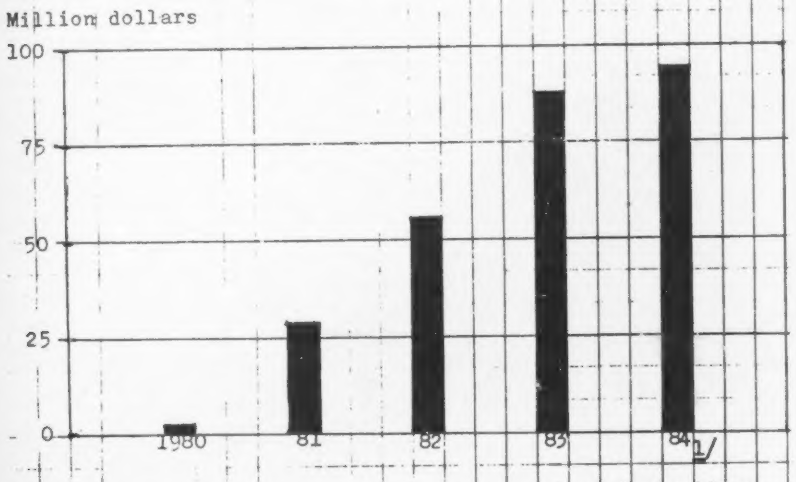


Figure 2 shows how the cost of the honey loan program mushroomed in 4 years from 0 to $90 millions. The cost of the program would have been zero if imports had been controlled.

Figure 2

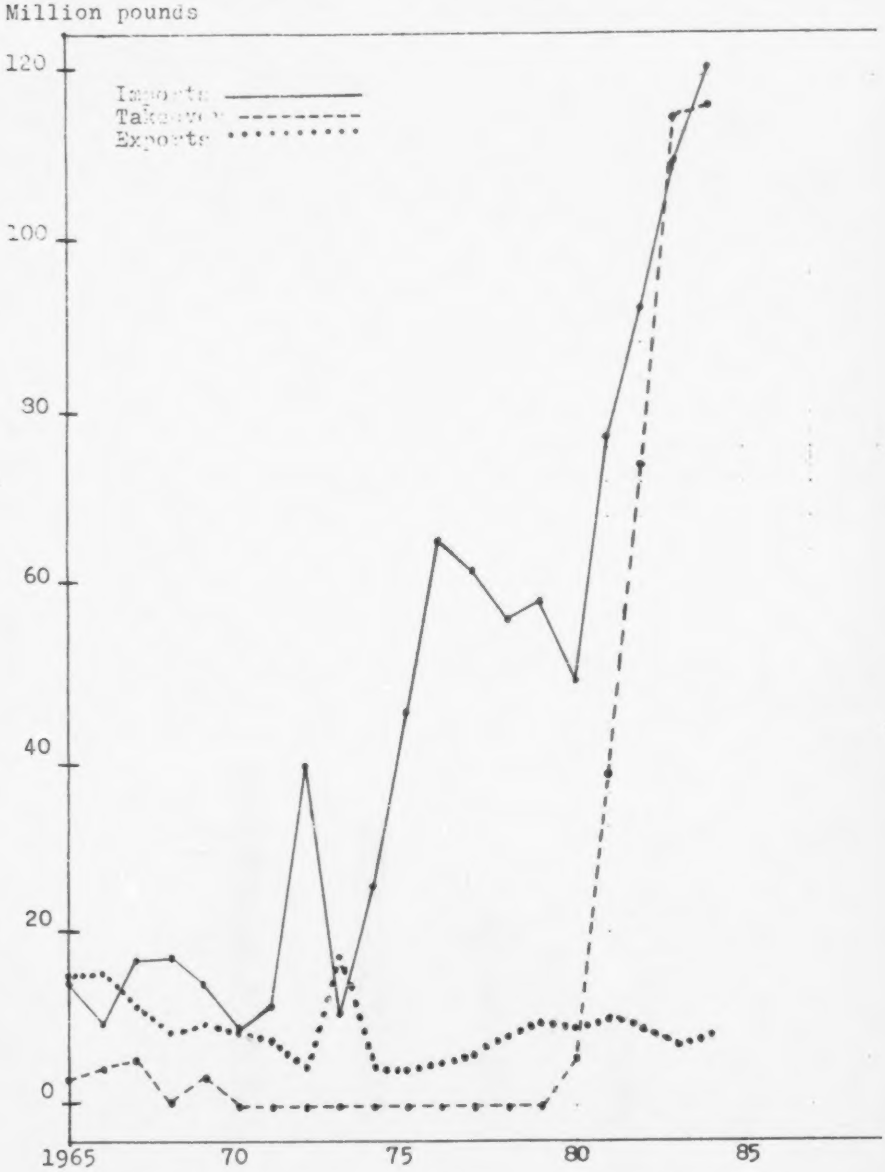
Honey: CCC expenditures for honey acquisitions 1980-84



Source: Compiled from the U. S. Department of Agriculture Statistics.

1/ Estimated

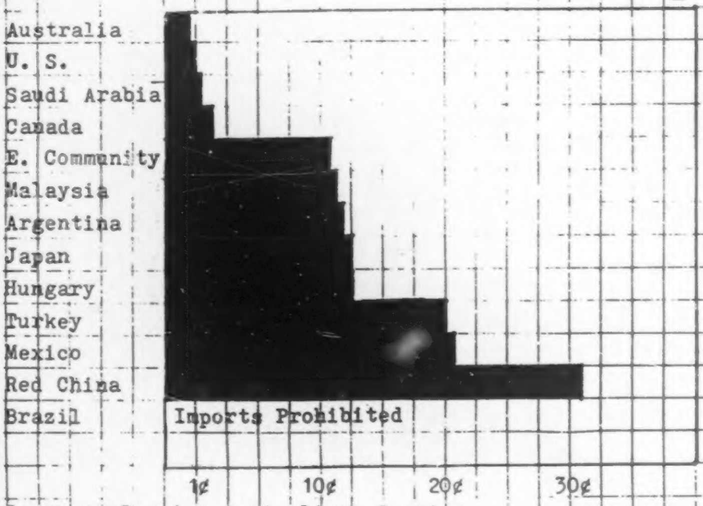
FIGURE 3.—HONEY IMPORTS, EXPORTS AND CCC TAKEOVER, 1965–84



Source: Compiled from official statistics of the U. S. Department of Agriculture.

Figure 4 lists 12 of the honey exporting countries who have signed General Agreements on Tariffs and Trade (GATT). The U.S. duty is among the lowest. By no stretch of imagination can one say that the U.S. beekeeper is being treated fairly under the present tariff structure.

Figure 4 : Honey tariffs of some Most-Favored-Nations 1/



Source: Foreign Agriculture Service

1/ Canada, United States, and Malaysia assess duties in cents per pound. Other countries have ad valorem varying from 2 to 80 percent. Calculations based on 40 cent honey.

APRIL 3 HEARING—PEANUT ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, I am pleased that we are holding this hearing today to consider the Peanut Program.

Peanuts are produced mainly in the Southeastern United States. Georgia is the leading peanut producing State. In 1983, peanut production accounted for $368 million of farm receipts in Georgia. Alabama producers received $113 million from peanut sales in 1983, making Alabama the second leading peanut producing state.

While the Peanut Program has varied throughout the years, several features of the program have remained in place—including marketing quotas and price supports.

Unlike the voluntary programs for wheat, feed grains, rice, and cotton, the Peanut Program is mandatory. Poundage quotas for peanuts were approved for the 1982 through 1985 crops in a January 1982 referendum. Almost 93 percent of the peanut farmers who voted approved the quotas.

The current Peanut Program provides for a two-level system of price supports; one level for quota peanuts and another level for additional peanuts—peanuts produced in excess of a farm's poundage quota. The price support level for quota peanuts is higher than the level for additional peanuts. The minimum statutory quota support level is $550 per ton. The support level for quota peanuts is adjusted annually to reflect any increase in the cost of production. Such an increase, however, is limited to 6 percent per year.

The price support level for additional peanuts is set by the Secretary after considering the demand for peanut oil and meal, the price of other vegetable oil and protein meal, and the demand for peanuts in the export markets. The support rate for additional peanuts must be set at a level that ensures no loss to the Commodity Credit Corporation. The support rate for the 1984 crop of additional peanuts was set at $185 per ton.

The Agriculture and Food Act of 1981 made several major changes in the program for the 1982 through 1985 crops of peanuts. These changes were designed to reduce Government costs, to bring domestic supply of quota support peanuts in line with demand, and to expand exports.

Among other things, the national poundage quota for peanuts was reduced over the 4-year period of the act to better reflect domestic demand. In addition, the 1981 act suspended the peanut acreage allotments for the 1982 through 1985 crops. This change allows peanuts to be produced on any farm. However, peanuts that are produced in excess of the poundage quota allocated to a farm—additional peanuts—are subject to various marketing restrictions. Additional peanuts must be contracted for export, prior to April 15, or placed under loan at the rate established by the Secretary for additional peanuts.

It is anticipated that peanut growers this year will plant about 1.5 million acres of peanuts. Therefore, production in the 1985 crop year is expected to be near the level produced in 1984. Peanut exports in 1985 are expected to be over 800 million pounds—more than one-third of the estimated world exports.

Mr. Chairman, I am particularly interested in the views of today's witnesses on what effect the changes made by the 1981 act have had on the peanut industry and the farming community. I believe that their observations and recommendations will be very helpful in our deliberations on the 1985 farm bill.

I welcome the witnesses to this hearing and look forward to reviewing their testimony.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

One of the more controversial aspects of the 1981 Farm Bill was the two-tiered pricing system of the Peanut Program. And depending on who you ask—growers, handlers or shellers—every segment of the peanut industry has a definite opinion about the Peanut Title of 1981 Farm Bill. I, for one, think it's a pretty good program and one that has served farmers and consumers well.

I don't have any peanuts in Kentucky, but I'm sure today's Chairmen will be glad to tell me about the peanut program at any time. The peanut program is unique because peanuts are a unique government supported commodity. I don't feel that, in moving toward a market oriented approach to agriculture, we have to treat every commodity exactly alike. The current program has provided loan levels which give farmers a chance to effectively market their crops without costing the government money and quota controls which recognize historical production patterns. This approach seems to have been very effective in stabilizing a peanut market which had been, prior to 1981, extremely volatile. I look forward to hearing from today's witnesses. Thank you, Mr. Chairman.

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM NEW MEXICO

Mr. Chairman, I want to express my appreciation on behalf of the citizens of New Mexico for the forthright manner in which the Senate Agriculture Committee has moved on the 1985 Food and Agriculture Act. I want to commend the Committee for holding thematic hearings on major subjects that the legislation will deal with. I think that you are on the right track by now holding hearings on specific commodity programs. I believe that you have set out on this long and difficult legislative road in a manner that I believe can lead to a Farm Bill that all America can live with.

I of course do not have the pleasure to sit on your committee, but like many others in the Senate, I am deeply affected by the work your committee does. Having raised eight children in my home, I have more than a passing interest in the end result of the agricultural food chain.

I am interested in all of the farm programs, both from my position on the Budget Committee and also as a Senator representing over 12,000 farmers and ranchers in my home state. I normally try to stay away from commenting on many of these commodity programs because I feel many of my colleagues from the Midwest and from the South have much larger farm communities and basically are much more qualified than I am to discuss these programs.

I would like to state that I am here today to say a few words about peanuts. Peanuts are a concern to me because they are only grown in one county in my state and we are talking roughly about 350 farmers that are directly involved in the peanut program. Compared with other Senators, my interest is small. However, over the years I have become very fond of this group of people who have taken the time to educate this city fellow all about this special crop.

As many of you know, in New Mexico we even grow a special peanut—the Valencia. Because of this unique variety and its accompanying complicating factors, we always seem to have special problems. I might add that these have been solved in the past with the cooperation of those on this committee. You have been patient and responsive with us when we talked about the Black Hull disease. You have been understanding when we explained the necessity of rotating our fields. You have helped with our special foreign marketing problems, and our poundage quotas.

I personally want to thank Senators from other peanut producing states for their assistance over the years in helping us. To my constituents in Roosevelt County these issues are those of life and death.

Peanuts accounted for less than 3 percent of all oilseed production in the United States between 1978 and 1983. Most of the U.S. crop is used as an edible nut and in products such as peanut butter, candies and cookies. Nearly 4.3 billion pounds of peanuts were harvested in 1984 mainly in Virginia, North Carolina, Florida, Georgia, Alabama, Texas, Oklahoma and my state of New Mexico.

Before 1981 the federal government supported peanuts through a strict system of supply controls including acreage allotments and poundage quotas. Allotments were eliminated in the 1981 Agriculture and Food Act, but the poundage quota was continued. Non-recourse loans were also continued but at two support levels.

Peanuts produced under the national poundage quota have been supported since 1982 at $550 a ton. These peanuts can only be marketed for use in the United States as edible peanuts.

Peanuts produced above these quotas or additionals are supported at lower rate of $185 a ton. These additionals can only be marketed overseas or crushed into peanut oil or meal.

Since 1981 the national poundage quota has been declining and has dropped from 1.2 million tons in 1982 to 1.1 million tons in 1985. This national poundage quota is apportioned among the different states based on their 1981 quota allocations. States in turn allocate their quotas among counties based on historic production.

My growers inform me that basically they are satisfied with the current peanut program which we began in 1981. The reforms we sought then have basically worked. Those who really farm peanuts are the ones the program should benefit. The program is not costing taxpayers money. Although I believe the program could probably use some minor technical tuning, I think it is very important that we do not reactivate provisions that once caused this program to receive so much criticism.

In closing, I would ask the committee to remember one thing. The Food and Agricultural Act is set up, I believe, to work a delicate balance between the needs of the consumers of America and the farmers and ranchers of this great nation. I believe that the current peanut program fits those needs and that very little change is necessary.

STATEMENT OF HON. SAM NUNN, A U.S. SENATOR FROM GEORGIA

I am delighted to have this opportunity to express my support of a strong and viable Peanut Program.

My home State of Georgia produces more peanuts than any other State in the country. In fact, almost 50 percent of the peanuts grown in the United States are grown in Georgia, representing about one-third of the total farm value for all Georgia crops, last year the value of the peanut crop was $521 million.

I would like to strongly support the recommendations of Georgia growers to continue the current Peanut Program in the 1985 farm bill with minor modifications and "fine-tuning" for more efficient operation of the program. These recommendations have been presented to the Senate Agriculture Committee by the National Peanut Growers Group and reflect the position of the Georgia Commodity Commission for Peanuts.

The current Peanut Program works, and it benefits taxpayers, consumers, and producers alike. Taxpayers are benefiting from a program whose costs have been cut to minimal levels under the 1977 and 1981 farm bills. Program costs are now running at under $5 million per crop year, a tiny fraction of all farm program costs and one-tenth of 1 percent of all Commodity Credit Corporation costs from 1978 through 1983.

Consumers have likewise benefited from a program which ensures a plentiful supply of wholesome peanuts and peanut products at fair prices. The two-tier Peanut Program also allows U.S. producers to compete in the world market if they are willing to assume risks. The United States is now the world's largest exporter of edible grade peanuts, even though we are a distant third in world production behind India and China.

Producers are assured a fair price for quota peanuts for domestic consumption under the current program, and any producer is free to grow for export and crushing, with supports at a market clearing level for exports. The 1981 Farm Act suspended allotments, thus allowing any farmer to produce non-quota peanuts for export, or to share in the domestic market if quota peanuts are insufficient to meet the domestic need.

The administration's peanut proposal is, in effect, no program. It would terminate the current program after the 1985 crop, and substitute a low loan rate and no production restrictions beginning in 1986. Direct payments are proposed to quota holders for the 1986–1990 crops; however, the formula is designed so that there would be payments in 1986, the first year, only. The administration estimates direct payments in 1986 of $75 million, and zero thereafter. This 1-year cost in 1986, however, would be more than the cost of the current program, less than $5 million annually, over the next 15 years.

Growers in Georgia and elsewhere strongly favor continuation of the current Peanut Program in general with these main modications:

1. Increase the national poundage quota in 1986 to 1.3 million tons. Require the Secretary of Agriculture to adjust the quota in future years above 1.3 million tons to meet estimated need. The domestic consumption for food and related purposes is now approximately 1.3 million tons, and the quota shortfall is being met with additional peanuts.

2. Adjust the quota support level. The level has been increased only once in the 4 year life of the 1981 act. This was in 1985 to slightly less than 28 cents per pound ($559 per ton) from 27.5 cents per pound ($550 per ton). 33 cents per pound ($660 per ton) would be a reasonable minimum support level. Growers recommend no change in the formula for setting the additional peanuts support level.

Chairman Helms has shown great wisdom in reauthorizing the basic foundation of the present Peanut Program in his version of the 1985 farm bill. I add my support to maintaining a very workable Peanut Program which might serve as a model to show that farm programs can work for taxpayers, consumers, and farmers alike.

STATEMENT OF HON. JEREMIAH DENTON, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, members of the committee, I thank you for the opportunity to show my support for a program that is of great importance to the growers of my state and this Nation, the current USDA Peanut Program.

We come before you today, to assure that this committee is aware of the impact any legislative change in the peanut program will have on my state and the nation. About 20 percent of the peanuts grown in this country are grown in Alabama.

Since 1935, Alabama has participated in the U.S. Government program that stabilized farm prices and adjusted production to meet market requirements. This program has enabled many Alabama farmers to plan a more stable life for their families, without this program we would return to the times of the Great Farm Depression. The current peanut program has helped many a farmer in my State put food on the kitchen table for their families, enabled them to meet hospital bills, put clothes on their children and helped the farmer plan how he would pay for a college education for his children.

How did one program affect so many lives in my State? It did so by providing a program that stabilized farm prices and adjusted production to meet market requirements so that farmers would have minimum protection against the unexpected—drought, disaster, frost, or depressed market conditions. All of which, he has no direct contol over.

The program is worth maintaining not only because it is supported by the peanut producers, but also because it achieves its aims at an extremely low cost to the Federal Government. Since the creation of the two-tiered price support system in 1977, the Peanut Program has reduced its cost to the taxpayers by nearly 90 percent. The present cost of the program is almost negligible. During the same period, peanut exports have experienced a dramatic increase.

During the 1985 Farm Bill, peanut producers, under the leadership of this committee, modified the Peanut Program with the objective of bringing production for domestic users in balance with marketing needs. Producers supported efforts to reform their program by agreeing to suspend acreage allotments, reduce the minimum national poundage quota from 1.2 million tons in 1982 to 1.1 million tons by 1985, adjust the price support level for the 1982 and 1983 crops at $550 per ton for quota production, and allow additional or non-quota peanuts to be grown by anyone and to also allow them to be eligible for price support at a rate set to assure no Government expenditures.

These were major changes in the administration of our Peanut Program. These changes gradually reduced the national poundage quota so that quota supplies for domestic edible consumption are below demand and the export price is much higher than the additional loan rate.

Also, increases in the quota support price were tied to the cost of production and cannot exceed 6 percent per year, and additional peanuts under loan are disposed of at no cost to the Commodity Credit Corporation.

It has been stated that the administration's proposals to change the Peanut Program would cost about $75 million to establish—more than the present program would cost over 15 years.

I feel that this committee should seriously weigh any new changes in the Peanut Program because the current one works. The present Peanut Program is a fine example of successful supply management, and one in which this committee worked hard and long on.

I will be working hard this Congress to reduce Government spending, but I see no reason to change programs like the current Peanut Program that is cost effective. Any disruption or further change in this program will have a tremendous impact on the already depressed farm economy of my State and the South.

Thank you.

STATEMENT OF THE NATIONAL PEANUT GROWERS GROUP, PRESENTED BY JAMES E. MOBLEY, CHAIRMAN

Mr. Chairman and members of the Committee I am James Earl Mobley, Chairman of the Steering Committee of the National Peanut Growers Group, a federation whose membership includes all state and regional peanut grower organizations in the nation. With me are the other officers of the National Peanut Growers Group, Ross Wilson of Texas and Russell Schools of Virginia.

We appear here today in support of a truly market oriented program which has succeeded in both the domestic and export market. Mr. Chairman, peanut farmers have accepted major program modifications over the last seven years that have reduced program costs by 90 percent.

The record will show that the National Peanut Growers Group worked closely with this Committee and the Congress in the enactment of both the 1977 and 1981 peanut program amendments. We wish to emphasize that in both these amendments we had no intent of shifting to transitional programs, but rather specific issues within the program were addressed and, as you know, were successfully resolved. In 1977 the principal issue was program cost which was reduced by establishing farm poundage quotas and no longer linking parity and price supports. In 1981 the issue of the "right to grow" was successfully addressed by suspending acreage allotments. As a result, 1984 fiscal year program costs were only one million dollars and anyone can grow and market peanuts.

It is important that you understand that a large percentage of growers having no farm quota are doing well through marketing opportunities afforded in the 1981 law in both the export and domestic edible markets. Such new growers may contract directly with handlers to export their production or they may participate in domestic channels by marketing their peanuts through the grower Association pools. These producers, in many instances, are receiving returns near the quota support price, although payments from the Association pools are delayed to permit complete marketing of loan peanuts and final accounting and record keeping procedures. The point is, however, that marketing opportunities provided in the 1981 law for those growers are proving to be workable and profitable.

Although the national quota poundage has been reduced some 50 percent under program amendments of 1977 and 1981, the remaining quota has enabled us to retain assurance of market stability and supply. Such assurance is essential in the marketing of a non-fungible, perishable commodity. It has enabled peanut farmers and consumers to avoid "boom and bust" agriculture.

TARGET PRICE PLAN A DISASTER FOR PEANUTS

Mr. Chairman, the Administration has proposed a dramatic change in the peanut program. They call it a target price concept.

It is not! It is a quick, one year elimination of the current successful program.

The Administration's proposal, if enacted, would cost about $70 million dollars during the 1986 crop year alone.

Growers are appalled by what the effect of a target price plan would be. The target price approach either would reduce net farm income disastrously or would require payments so large that program costs would be unacceptable to the Congress and the taxpayers. We are even more appalled at the effects of the Administration's proposal for peanuts with a rapid transition to a program completely void of marketing order and price stability.

Those who propose such changes for peanuts assume, erroneously, that program administrative processes suitable for grains and cotton are suitable for peanuts. There are two major distinguishing factors. First, peanuts are produced for two distinct markets where they have widely different competitive values. Peanuts used for food compete, as roasted and salted nuts, against pecans, cashews, almonds, walnuts and other nuts all of which sell at much higher prices than peanuts. Peanut butter competes with meats, cheeses and other items and is a relatively low priced, excellent food. Peanuts crushed for oil and meal enter a market that includes the whole world complex of oilseeds, fats and oils and protein meals—vegetable, animal and marine. The entire U.S. peanut crop, if moved into this market, would be only about one percent of the total. The value of U.S. peanuts in this market is far below their value for domestic food use. The wide disparity of values which exist in many years in the two markets makes program cost under the target price approach very high for peanuts if net farm value of peanuts is to be maintained at reasonable levels.

Second, peanuts are not a fungible commodity. The commercial trade does not provide warehouses and elevators where the individual farmer can store his peanuts and obtain a warehouse receipt on which he can obtain a bank loan and against which he can subsequently sell a stated grade and quantity of peanuts. These services are not provided because of the nature of the commodity. Peanut marketing in any practical sense involves the dumping of hundreds and even thousands of farm trailer loads of peanuts into a single storage bin. There is no feasible way of storing peanuts belonging to an individual farmer separately. Each lot of peanuts, when delivered by the farmer, is a mixture of quality factors. Grading is difficult. Peanuts cannot be carried satisfactorily from one crop year to another. They deteriorate in storage—in varying proportions from warehouse to warehouse, from one area to another and from one year to another. Before moving into food use they require milling with separation into various grades and qualities.

For peanuts, unlike cotton and grains, the farmer needs assistance in obtaining inspection, storage and financing until the peanuts can be sold in an orderly manner. This entails "mixing" or "pooling" of peanuts from many farms.

The farmer also needs assistance in the marketing of his peanuts as he generally cannot store and later obtain delivery of his peanuts for sale from the storage warehouse.

With price support loans and related operations, the farmer has an effective means of obtaining the value of his peanuts in the primary food market and a means for moving any production above food requirements into the secondary crushing and export market in an orderly manner. Production above domestic food requirements moves freely and completely each year at its value for crushing and export. Exports for food use are increasing and are bringing prices above those for crushing.

A target price approach would afford no means for the orderly movement of peanuts into these two distinct markets. It would result in disorderly marketing with prices at minimum rather than maximum levels relative to the value of the commodity.

More specifically with respect to the Administration's peanut proposal, that plan would be a disaster for our industry. The USDA in data accompanying its peanut proposal projects season average prices that exceed the target price for all years after 1986. But with no effective price support those season average price estimates likely will be far from accurate. As previously expressed, peanuts move in two separate and widely differing price markets—edible and oil. In a surplus situation the price will seek the lower oil market value. In that situation many producers forced to accept low market prices will be eliminated. Financing will be difficult for most producers due to the high cost of producing peanuts and the absence of market and price stability essential in a peanut program.

Some believe in the absence of the present program that the trade would be forced to assure supplies through contracting with producers. To see the fallacy of that approach one has only to look at the experience of the contracting of "additional" peanuts in 1984. As a result of contract prices favorable to growers, substantial overplanting occurred and with excellent growing conditions a troublesome surplus of peanuts resulted that has and will continue to depress market prices of both farmers stock and shelled peanuts. A result of the 1984 experience will be a sharp decline in the production of "additional" peanuts in 1985. Without the stability in the quota phase of the current program, we would experience a very real illustration of the "boom and bust" supply cycle and all that goes with it including high program cost, followed by a short supply with sharply escalating prices for consumer products. In 1980 under a very tight supply situation that resulted from a belt-wide drought we saw prices of farmer stock peanuts vary from oil value to $1,600 per ton. Under the Administration's proposal that kind of situation would be the rule rather than the exception.

Marketing quotas are an integral part of the peanut program for the following reasons:

(1) *Peanut quotas assure a stable supply of peanuts to consumers.*—Peanut quotas are the extra dimension needed to maintain market stability for a perishable commodity. Without the stability in the present program and because peanuts cannot be carried beyond a few months outside of cold storage, the price would fluctuate from oil value to $1,600 per ton as occurred in 1980, depending on supply at the farm level

(2) Peanut quotas make for market predictability which enhances financing for production and processing of the crop

(3) Peanut quotas are one of the few effective tools that can be used to control program costs. Quotas have been largely responsible in reducing the cost of the peanut program to a negligible level

(4) The peanut quota system serves as the base of our present very effective quality control program and

(5) Peanut quotas result in higher farm prices, but not necessarily higher retail product prices. Recent studies have shown that a number of other factors influence retail peanut product price to a greater degree than the farm cost of peanuts.

Since the framework of the present program provides an effective vehicle by which the grower can best market his peanuts, provides a means by which supply and demand can be controlled, provides flexibility for production of peanuts for export markets for the more efficient growers and provides a reasonable basis for financing the production and processing of the crop, we see only major disadvantages to any switch from the present program concept to an open end, low support concept.

RECOMMENDATIONS

The following items constitute our recommendations to modify Section VII of the Agriculture and Food Act of 1981 as we feel would be appropriate and essential in the Peanut Section of the 1985 Farm Bill.

POUNDAGE QUOTA

The 1985 national poundage quota of 1.1 million tons is about 200,000 tons under the current domestic edible and seed use level. Our legislative recommendation calls for an increase of 18 percent in the quota for 1986. For subsequent years the Secretary would be required to increase the quota only if USDA estimates indicate increases in the domestic edible use of peanuts.

Our request is not expected to increase program cost since domestic edible demand of about 1.3 million tons will equal the poundage quota level. An added measure of safety is the provision that any "additional" peanuts purchased for domestic edible use must be purchased at the quota price. The amount of such sales price in excess of the "additional" loan rate is credited to the Association pool and utilized to the extent necessary to pay any losses in the quota loan pool.

We are proposing that the 200,000 tons of quota increase be allotted equally to eligible quota and non quota farms in 1986. Any increases that may occur in 1987, 1988 and 1989 would also be distributed equally to qualifying quota and non quota farms.

Further, the Secretary would be required to increase the quota for any year after 1986 for which the demand for domestic edible and seed use is estimated by the Department to exceed 1.3 million tons.

The poundage quota increase for 1986 from 1.1 million tons to 1.3 million tons and any further increases granted by the Secretary in subsequent years would be apportioned equally to eligible quota and non quota farms.

PRODUCTION REQUIRED

We are proposing that the quota must be produced two out of each three year period unless prevented by natural disaster or other causes beyond the producer's control. Thus, the American Peanut Farmer, in return for the quota price support, must guarantee the consumer a constant supply.

Farm quota eliminated by failure to produce (and quotas voluntarily released) are to be apportioned to other farms, quota and non-quota, in the state.

PENALTIES EQUALIZED

In the 1981 law penalties for grower violations of marketing provisions were established at 140 percent of the quota support level and penalties for handler violations were established at 120 percent of the quota support level. Our proposal would set the penalties for both handlers and growers at 140 percent of the quota support rate. We also have added language that prohibits lowering the handler penalty resulting from failure to export contracted additional peanuts. The penalty would also be extended to cover reentry of exported peanuts under rules to be prescribed by the Secretary.

CONTRACTING PROVISIONS STIPULATED

There has been general concern by growers relative to the manner in which the contracting Section, 704 (j) of the 1981 law, has been interpreted. We believe there was no intent by Congress to permit contracting of additional peanuts under this section for purposes other than those stated in the law and we believe that all contracts executed under this section were intended to be firm at that point including the contract price. Further, we believe that Congress intended that all additional peanuts contracted under Section 704 (j) should be exported or crushed. Therefore, we have clarified the items in the contracting provision that were thought to be clear in the 1981 law. The items are:

(1) Final price must be stated when the contract is executed,

(2) Contracting under this Section for additional peanuts for domestic use other than crushing is not permitted, and

(3) The contracting deadline is moved from April 15 to August 1.

A later deadline for the contracting of "additional" peanuts was agreed to by growers in an effort to accommodate the wishes of peanut handlers who believe that a later contracting deadline will enhance opportunities for the marketing of such peanuts in export channels. Peanut producers continue to work hard in cooperation with handlers and USDA's Foreign Agricultural Service to build and expand export markets. We produce the highest quality peanuts in the world and we will continue to make every effort to enlarge upon our present position of the No. 1 supplier of edible peanuts in the world market.

DETERMINATION OF QUOTA SUPPORT RATE

The provision for determination of the quota support rate has been modified to utilize a simple average of the immediately preceding 3 year market price for quota peanuts rather than basing the quota support rate on a determination of national average production cost.

With the shifting of the peanut program toward increased market orientation, establishment of the quota support rate by use of price received by growers for quota peanuts in the market appears to be more relevant than a support price determination based on production costs. In several of the past five years, market price for quota peanuts has exceeded the established quota support rate. Also, cost of production has been one of the most controversial parts of the program. There continues to be disagreement among USDA, State Extension personnel and growers on production cost levels. Market price is much easier to define and is a better barometer of the real value of the commodity.

SUMMARY

Mr. Chairman, the current peanut program works: boom and bust agriculture for peanut farmers has been avoided; most growers are able to receive a small profit at least on part of their peanut production; consumers are guaranteed a reliable supply of high quality wholesome peanuts at a reasonable and stable price; the United States is the leading exporter in the world of edible peanuts; government costs for the program are minimal, down 90 percent from the cost of the program during the 1970's.

Thank you.

STATEMENT OF JIMMY CURRY, SECRETARY-TREASURER, GEORGIA PEANUT PRODUCERS ASSOCIATION, BLAKELY, GA

Thank you, Mr. Chairman. My name is Jimmy Curry. I am a peanut producer from Randolph County, Georgia. I also serve as the Secretary-Treasurer of the Georgia Peanut Producers Association. With me is Mr. Fletcher Thompson, a peanut producer from Early County, Georgia, who serves as the president of the Association; our executive director, Mr. Walt Mitchell; and our Washington consultant, Mr. Julian Holland.

There are 9,132 actual peanut producers in Georgia. The Georgia Peanut Producers Assn. works for all of these producers. Over 1,200 of them contribute financially to the operational expenses of our Association as do many rural financial institutions and chemical companies who have a vested interest in the economic health of our industry.

We realize that we are only a small part of this nation's agricultural population and that, as farmers, we are in the minority. There are 2.4 million farmers in contrast to 10.3 million welfare recipients and 20 million food stamp participants.

Therefore, Mr. Chairman, as spokemen for the Georgia Peanut Producers Assn. we are grateful to you and the other members of this Subcommittee for inviting us to testify on behalf of the peanut program. As peanut producers, we consider ourselves very fortunate in having men with an understanding of agriculture and its unique and special problems serving on this Committee.

Last summer and fall, the House Tobacco and Peanuts Subcommittee held numerous field hearings throughout Georgia and the other peanut producing regions of the country. As an Association, we testified at all the field hearings in Georgia. During that testimony, we stressed the importance of peanut production and the present program to the economic well-being of the entire state of Georgia. We explained how peanuts were a specialty crop and required a sizable financial investment to produce. These points and many more were made and discussed at length and are now part of the record for the Members' attention during the deliberations on the peanut section of the 1985 Farm Bill.

Today we want to address several other points that we feel should be considered during the deliberations of this Committee.

Mr. Chairman, the peanut producers in Georgia, as well as the producers in the other major peanut producing areas, have a record of over twelve years in working with previous Administrations, the Congress, and, in particular, the House Tobacco and Peanut Subcommittee, in a cooperative manner in addressing past problems in the peanut program. Together, we found solutions to correct those problems. We have sincerely and earnestly cooperated to the fullest with the end-users, the handlers and other segments of the industry to fashion a program which now serves the best interests of all parties and, in particular, the American consumer.

Beginning in the early 1970's, a trend developed in the Southeast wherein producers began planting a new variety of peanut, the Florunner. In most cases, the runner variety of peanuts greatly increased the yields over the previous varieties. This excessive yield spelled trouble because, under the old peanut program, the Department of Agriculture, by law, had to purchase all peanuts under a one-price system based on 75 percent of parity. During 1974-75, the Commodity Credit Corporation had as many as 600,000 tons of runner peanuts in surplus and, because of the provisions of the old law, these had to be crushed to make room for the new crop. This created an unacceptable and unreasonable cost to the American taxpayer. The producers in Georgia realized the potential damage that could be done to the continuation of such a peanut program.

In early 1976, thirteen unofficial hearings were held in Georgia, over a period of two weeks, outlining the problem to the peanut producers in South Georgia and explaining the repercussions should nothing be done to lower the costs of the program. I might add that those meetings were well attended and also very vocal. No one really knew when the rope would be brought out but the meetings were fruitful and a concensus was reached.

Negotiations were held with producers from the other regions and the 1977 Farm Bill reflected the needed changes in the program.

Most of the problems with the program were corrected. The producers agreed to major modifications in the program, instituting poundage quotas, establishing a two-price system and reducing domestic quotas over a four-year period to reflect more accurately the domestic requirements. The result was a dramatic reduction in the cost of the program and the potential for greater sales of peanuts overseas. The producers in this country willingly and in good faith cooperated to change drastically the program for the first time since its inception in 1938.

By 1981, more fine tuning was needed to further streamline the program and the producers, once again, worked closely with the House Subcommittee to amend the program.

We have now reached a point where the program is working at its best. It has been termed a model of success. The Department of Agriculture has a group of dedicated men and women who are administering the program in a fair and equitable manner and in the best interests of the country. The program now allows for the production of an adequate amount of quality peanuts to expand our export market while at the same time supplying our domestic requirements.

It has specific options to protect the end-users in case there is a shortage in the domestic quota supply. These options were utilized to a high degree last year, especially the buy-back provisions. Most important, however, from a producer standpoint, the present program allows the actual producer to make a decent return on his large investment. With agriculture experiencing its most serious economic crisis since the depression, this return is life-saving in the case of most peanut producers. Thankfully, peanuts can still be used as collateral with lending institutions in the South.

So, the present program is providing an adequate supply of quality peanuts to the domestic and export markets, but this Commmittee, we realize, must ask and answer the question: "How much is the peanut program costing the American taxpayers?"

Mr. Chairman, very recent figures that we have obtained indicate that the cost to the Government of the 1984 crop will be less than 5 million dollars. The final tally is not yet in but there is a possibility the cost could be zero and could conceivably even result in a small profit for the U. S. Treasury.

Serving to reduce the final cost of the program is the fact that the CCC is making about $65 per ton in crushing additional peanuts. They have invested only $185.00 per ton in these additional peanuts which are being crushed and sold at oil market prices of approximately $250.00 per ton.

It is only natural for producers to want to protect a program they feel is in their best interests but anytime a serious problem has arisen that could affect any segment of the industry, the producers have accepted reality and given their cooperation.

A case in point was the drought experienced in 1980. It was very obvious that not enough peanuts would be available to supply our domestic requirements. The end-users requested that the import levels for peanuts be raised to 300 million pounds. The producers in Georgia could have fought this request through the International Trade Commission but did not. We knew that it would bring foreign peanuts into this country and also open the door for other peanut-producing nations to move on our foreign markets. But we agreed to support the request and the end-users were able to keep their production lines running through a simple administrative adjustment.

In conclusion, Mr. Chairman and Members of this Committee, we ask you to consider these things in your future deliberations, in your negotiations with colleagues, and in your recommendations to the Congress:

The peanut program is not a contributing factor to the enormous deficit our nation faces. Peanuts cannot be lumped into the same category as wheat, corn or soybeans. The present peanut program provides consumers with a quality product at reasonable prices and is becoming an increasingly important part of our export trade. The program operates at virtually no cost to the tax-payers of America. At the same time, it is a program that undergirds and supports the economic stability of thousands of farm families and agribusiness industries.

Mr. Chairman, we thank you for allowing us to speak up for the peanut producers of Georgia and we will be pleased to answer any questions the Members have.

STATEMENT OF SYD REAGAN ON BEHALF OF THE SOUTHWESTERN PEANUT SHELLERS ASSOCIATION

I am Syd Reagan, General Counsel for the Southwestern Peanut Shellers Association, and I am speaking on their behalf today.

Our members are located in Texas, Oklahoma, and New Mexico. Our members buy farmers' stock peanuts from growers and dry, store, and shell them, and sell the processed peanuts to manufacturers of peanut products. Our members also act as agents of CCC in carrying out the Peanut Price Support Program.

Our members strongly support the legislative recommendations of the National Peanut Growers Group. The continuation of the Peanut Price Support Program will be beneficial to the consuming public in that it will assure them a reliable and steady supply of peanuts at reasonable prices. The continuation of the program will also be beneficial to peanut growers, shellers and manufacturers of peanut products in that it will provide stability to the industry. The program should be continued in such a way that will result in no losses to the government. The growers' proposal should be amended to assure that there will be no losses. Two amendments are needed to deal with two problems that have arisen under the present Program whereby additional peanuts intended for export end up in the domestic edible market at prices below the support price of quota peanuts, and consequently, displace quota peanuts in the domestic edible market. The result is that quota peanuts are forced under loan and are diverted to export or crushing at losses to the government. The new legislation must avoid these abuses and losses.

The first problem arises from a loophole in the legislation and a practice that began with the 1984 crop and that will become much more of a problem with the 1985 crop. The problem arises when a grower who has contracted to deliver his additional peanuts to a sheller at a specific price agrees later to cancel the contract, receives a payment from the sheller for doing so, then places his additional peanuts under loan through the sheller and receives the amount of the non-recourse loan, and finally assigns his proceeds from the distribution of profits from the additional type pool to the sheller.

The sheller, within 72 hours buys back from CCC these additional peanuts that were placed under loan and uses them in the domestic edible market. When the distribution is made at the end of the year from the additional type pool, the sheller receives the distribution. There are variations as to how the proceeds from the additional pool will be distributed, and sometimes the grower participates—it depends on the the agreement between the grower and the sheller. The end result is that the grower receives as much or more for his additional peanuts as he would have under the contract, the sheller is able to end up paying less than quota support for them, and quota peanuts are displaced in the domestic edible market at a loss to the government.

Attached as Exhibit A is step by step examples of how this scheme works.

The Department of Agriculture has refused to do anything administratively about this practice. The only way to deal with it is through legislation. The amount of the distribution from additional pools must be made sufficiently uncertain that shellers will no longer engage in this practice. The best way to achieve this is to eliminate the additional type pools and simply have an area additional pool. New Mexico Valencias should be excluded because they represent a unique type of peanut and account for substantially less than one percent of the national production of peanuts.

Present legislation should be amended by striking the word "type" in connection with additional pools and by adding the New Mexico Valencia exclusion.

In addition, another problem in connection with additional peanuts arises from the lower quality shelled additional peanuts legally required to be exported being diverted into the domestic edible market and higher quality quota peanuts substituted for them in export. This occurs because the price of lower quality shelled peanuts is very weak in foreign markets compared with the price of higher quality shelled peanuts. The market for lower quality shelled peanuts is stronger in the domestic edible market.

This illegal substitution has a very serious adverse effect on the domestic edible market for quota peanuts produced in the Southwest area. Because of the greater humidity in the Southeast area compared with the much dryer conditions in the Southwest area, farmers' stock peanuts dry out more while in storage in the Southwest. When the peanuts are shelled in the Southwest, many more of them split than in the Southeast. Consequently, the domestic split market is much more important to the Southwest than to the Southeast.

The substantial quantities of splits from additional peanuts and sometimes from No. 1 shelled peanuts, all of which are lower quality, are diverted into the domestic edible market. This has a very depressing effect in the domestic market. The result is that Southwest shellers are able to buy fewer quota peanuts and consequently, more quota peanuts go under loan and result in losses to the government.

This problem was recognized by the government several years ago, and to prevent it the government established required supervision of the shelling and export of additional peanuts. This is effective in dealing with the problem discussed above but such supervision is expensive for the shellers and disruptive of shelling operations.

Our members favor an effective alternative to supervision that the sheller can choose. We recommend that the new legislation provide that as an alternative to supervision of the shelling of additional peanuts, the sheller can agree to export the same proportion of each grade and size based on the shelling experience with additional peanuts at that shelling plant under supervision with 1983 and 1984 crop peanuts.

Unless an effective alternative to supervision can be incorporated into the legislation, then our members favor mandatory supervision.

Our members urge that Congress deal with these two problems and prevent losses to the government from occurring under the new legislation.

I will be happy to respond to questions.

Thank you.

[Exhibit A]

EXAMPLE OF HOW ADDITIONAL PEANUTS ARE GETTING INTO THE DOMESTIC EDIBLE MARKET AT LESS THAN SUPPORT OF QUOTA PEANUTS

1. Sheller and Grower, before harvest, enter into a contract for Sheller to purchase additional peanuts from grower at $350 a ton; such peanuts are to be exported.
2. Later, Sheller and Grower agree to terminate the contract to buy additional peanuts for export and agree to the steps below.
3. Grower puts additional peanuts under loan with CCC through the Sheller. Grower receives the loan advance from CCC of $185 per ton.
4. Sheller pays Grower $215 per ton and Grower assigns proceeds of pool distribution to Sheller. At this point, Grower will have received $185 plus $215 equal to $400 per ton, which is $50 more than he was to receive under the contract.
5. Within the 72 hours of "3" Sheller buys the peanuts from CCC for $550 plus $25 or $575. This is quota support plus handling. At this point, the Sheller has in the peanuts $215 plus $575 equal to $790.
6. When the distribution of the pool for additional peanuts takes place, the Sheller receives $300. At this point, the Sheller has been able to acquire the additional peanuts and put them into the domestic edible market for $790 less $300 for a net of $490 per ton, which is $60 under quota support.

The result is that additional peanuts have been put into the domestic edible market at less than quota support and have forced a like quantity of quota peanuts under loan, which will be diverted to crushing or export at a loss to CCC.

This practice also shifts domestic edible markets from the Southwest area to the Southeast area; and consequently, increases losses to CCC in the Southwest area.

The practice became common in 1984. Approximately 300,000 tons of additional peanuts in the Southeast area and 75,000 tons in the Southwest area were involved. It is anticipated that much larger quantities will be involved in 1985 at substantial losses to CCC.

The Department of Agriculture has refused to prohibit this practice.

[The following material was furnished by Mr. Phillips, see p. 185 for oral reference:]

AMERICAN AGRICULTURE MOVEMENT, INC., 1985 FARM BILL PROPOSAL

The American Agriculture Movement, Inc., in convention and meetings held across the country assembled and proposed the following to be included in the 1985 farm bill.

The 1985 farm bill must include:

Production controls.—Establish a mandatory program through referendum by farm operators with quantity controls (bushels, bales, pounds, etc.) in addition to a 10 percent acreage reduction. Production levels should be established according to inventory stocks.

Loan rates.—Loan rates set at not less than 70 percent of parity (the average cost of production) on all storable agriculture commodities including milk. Minimum non recourse loan term shall be 36 months with loan rates increasing 2 percent annually through 1996 and remain at 90 percent parity thereafter; storage rates for on-farm storage and commercial storage shall be the same.

Proposed annual loan rate increase

[In percent]

Year:	*Parity*
1986	70
1987	72
1988	74
1989	76
1990	78
1991	80
1992	82
1993	84
1994	86
1995	88
1996	90
1997	90
1998	90
1999	90

Food Reserve.—A national food reserve shall be established (to guard against food shortage) and released only when a food shortage has been declared by the House and Senate agriculture committees. Inventory stocks of each commodity shall be set by the Ag secretary and shall be managed by the Commodity Credit Corporation (CCC).

Imports.—All agricultural products (livestock, poultry, dairy, fish, vegetables, etc. . . .) shall be labeled as to the country of origin. Any processed or co-mingled product shall be labeled as such. All imported products shall have equal inspections and meet same standards as domestically produced products. Products containing residues of U.S. banned chemicals shall not be allowed to be imported into the United States Red meat imports shall be controlled by a price trigger and reflect a parity level consistent with other ag commodities and no ag product shall be allowed entry at less than the domestic price as provided for in the GATT (General Agreement on Tarriffs and Trades) anti-dumping agreements.

Exports.—The United States should use subsidies to maintain our market share in world trade and this device should include export PIK, adequate credit, interest-buydown, etc. U.S. subsidies should match those used by foreign governments hidden or direct.

Farm tax loopoholes.—There should be a maximum write-off of $20,000 for nonfarm income through tax-loss farming.

Soil conservation.—The existing soil conservation programs shall be continued and expanded in problem areas.

Farm credit (FmHA).—Reschedule farm debt on a case-by-case basis to allow the operation to meet cash-flow requirements necessary to continue operation. Terms of the loan (20-year maximum) shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people! Three of which must be farm operators, elected by their peers which will in turn appoint two others, one from the financial community, and one holding a public office. New applications must be accepted for consideration and any economic emergency (EE), emergency disaster (EM), or operating (OL) loans not acted upon within 60 days must be automatically approved.

ASCS.—County ASCS committees shall make all decisions relating to soil and water conservation practices, including cover crops, haying and grazing dates, etc. The ASCS community committee must be continued with no fewer committees than in place in 1980.

RESOLUTIONS

Original five points.—

1. 100 percent parity for all domestic and foreign used and/or consumed agriculture products.
2. All agricultural products produced for national or international food reserve shall be contracted at 100 percent parity.
3. Creation of an entity or structure composed of agricultural producers to devise and approve policies that effect agriculture.
4. Imports of all agricultural products which are domestically produced must be stopped until 100 percent parity is reached, thereafter imports must be limited to the amount that the American producers cannot supply.
5. All announcements pertaining to any agricultural producing cycle shall be made far enough in advance that the producer will have adequate time to make needed adjustments in his operation.

Futures trading.—The Commodity Futures Trading Commission shall make it illegal for anyone to sell futures contracts of U.S. produced agricultural commodities unless they own, have the resources to produce, or hold a long futures contract position for a like amount of the subject commodity.

Collective bargaining.—AAM supports legislation to include collective bargaining protection under the Capper-Volstead Act for contract growers and encourages full participation of all commodities to enter into collective bargaining in order to achieve 100 percent parity.

Commodity entitlement.—Ag storage facilities be required to furnish a 100% surity bond; stored commodities shall remain the absolute property of the producer until he released his interest; producers shall be allowed to remove any commodity stored by paying accepted storage and agreed upon in-and-out charges: (Commodity shall be of like quality and quantity); stored commodity shall remain at the point of delivery until producer gives written consent to move the commodity; bankruptcy claims of a storage agent shall be limited to assets of the elevator or storage facility and all individually owned warehouse receipts, titles, claims, or individuals' ownership be honored.

Commodities ratio.—Price supports should follow established ratios (as is now the case with feed grains indexed to corn); said ratios shall be set at parity and the ratios should be: beans to corn, 2.5 to 1; wheat to corn, 1.5 to 1; cotton to beans 10 to 1.

Conservation.—Congress should give priority consideration of soil and water conservation programs providing aides and financial incentives, support educational and other programs to encourage use of the best possible conservation practices, development and quality improvement; and seek more prompt certification and release of herbicides which would aid producers.

Cost of production board.—The Secretary of Agriculture should name on the National Agricultural Cost of Production Standards Review Board, seven members who depend on agriculture production of one or more of the various ag commodities for the major portion of their income.

Credit-farm credit lenders.—No family farm shall be forced to liquidate or have repossessed their equipment or farm land by government agencies as long as those producers are forced by government actions to produce at below the cost of production; the Administration shall appoint a by-partisan task force made up of representatives of farmers, FmHA, OMB, and the Congressional ag committees to study ag financing and report back recommendations.

Dairy—Beef.—AAM will continue to work with other commodity groups to stop dumping of dairy or beef products in compliance with the anti-dumping code, seeking assistance of dairy and beef organizations in this effort.

Exports.—AAM shall support every effort to develop and expand world markets at 100 percent of parity; supporting the concept of barter and reciprocal agreements; work to eliminate trade barriers and insist on U.S. rights under appropriate international instruments; seek reinstatment of export credit programs; urge the revolving fund authorized by the 1981 farm act be funded.

Farmland preservation.—AAM is immovably against placement or siting of MX missiles, protective shelters, roads and contructions or support facilities on agriculture lands in the U.S.

Federal reserve.—Congress shall initiate a full-scale investigation of the Federal Reserve System, as it controls the economic condition of the U.S. (in this line, AAM shall continue to educate and inform the American people about the Federal Resreve System and how its policy has bankrupted agriculture over the past 70 years.)

Hazardous waste.—AAM is opposed to the disposal of any hazardous waste materials in the U.S. without full advance disclosure of such intended land use and full advance approval by local government entities.

Inheritance.—AAM supports abolishment of inheritance tax laws and amend federal estate and gift tax to exempt farmland passed to another generation actively engaged in farming.

L.A.M.P.—AAM continues its battle to achieve 100 percent parity, working in the field of L.A.M.P. securing favorable legislation, production of alcohol fuel, marketing of production; and involvement in the political process. L.A.M.P. will be AAM's guiding light to achieve the goal of parity in the market place.

Price index.—USDA and the national news media report the monthly parity price index in the same manner as the Consumer Price Index, with a brief explanation to better inform the consuming public.

Unity.—AAM, Inc. will work within member states to form coalitions between farm organizations for the purpose of creating better prices for agriculture.

Water rights.—AAM strenuously opposes any effort by the state or federal government through use of a water policy, to adopt legislation to take away producers rights to water underground and surface.

STATEMENT OF MERRILL J. BATEMAN, PRESIDENT, MJB CONSULTANTS, INC.

The current quota-based peanut program with its high price supports has resulted in a supply-constrained peanut market leading to:

1. U.S. peanut product prices at least 10 percent above those which would prevail under free market conditions.
2. Profit margins for the average quota holder 44 to 73 percent above current production costs and 76 to 93 percent above costs in a free market. The quota and price support restrictions inflate growing costs by 3 to 4 cents per pound.
3. Net returns to the average quota holder 4–20 times greater than returns available to growers of the next-best alternative crops.
4. A subsidy of approximately $250,000 annually to 12 or more quota holders.

Each of the points noted above are briefly explained and supported in the following paragraphs.

HIDDEN TAX ON CONSUMERS

Statistical analysis indicates that peanut product prices (peanut butter, salted nuts and peanut candy) are responsive to changes in raw peanut price—both up and down.[1] Because the current quota and price support program for peanut production increases the price of raw peanuts from a free-market level of 18–19 cents per pound to 28 cents, the prices of peanut products are also inflated by at least 10 percent.

For example, a one pound jar of peanut butter, retailing for about $1.30, contains almost one pound of shelled peanuts or about 1.47 pounds of farmer stock peanuts. At the current support level of 28 cents/lb., the cost of the raw peanuts in this one pound jar of peanut butter is 41 cents. At a free-market price of 19 cents per pound for farmer stock peanuts, the price of the raw peanuts in the jar of peanut butter would be 28 cents—13 cents lower. The statistical analysis of peanut butter and raw peanut prices indicates that the peanut butter price would fall by at least an equal amount—13 cents—or 10 percent. The other major peanut product categories show similar statistical patterns leading to the conclusion that the American consumer is paying a hidden tax of 10 percent on all peanut products as a result of the higher support prices associated with the peanut program.

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[1] See Bateman, Merrill J. and Oveson, Richard M., "The U.S. Peanut Industry, the World Market and U.S. Legislation," October, 1984, pp. A1–2—A1–4.

PRODUCTION COSTS AND PROFIT MARGINS

Table 1 summarizes average U.S. costs of peanut production as reported by the USDA for 1983. Total economic costs rather than cash expenses have been used to determine production costs because it allows comparisons across commodities and does not include the distortions of varying debt levels. According to the USDA:

"Total economic costs and returns can be used to compare various commodities without regard for equity levels or tenure of producers. For example, the cash expenses of two farm operators producing corn may be completely different because of differing levels of debt, even when identical practices and technology on similar land are used." [2]

Total economic costs cover all variable and fixed costs, including capital replacement costs, plus returns to capital, land and labor. A price covering total economic costs is sufficient to keep an enterprise in business over the long run.

Table 1 indicates that U.S. total economic costs of producing peanuts averaged $.1905 in 1983 (if USDA trend yields are used). A price-support level of $.2750 for quota peanuts in 1983 provided a 44 percent profit margin for the average producer. If land costs are excluded, the profit margin was 73 percent.

TABLE 1.—PEANUT PRODUCTION COSTS AND PROFIT MARGINS GIVEN CURRENT PROGRAM, 1983

	Dollars per acre	Dollars per pound	Profit margins—percent (price support = 27.5)
Total economic costs [1]	513.32	.1905	44
Excluding land	429.46	.1594	73

[1] Total economic costs include all fixed and variable costs, including capital replacement costs, plus returns to capital, land and labor. A price which covers total economic costs is sufficient to keep an enterprise in business over the long run.

Source: USDA, "Economic Indicators of the Farm Sector, Costs of Production, 1983," ECIFS 3-1, Economic Research Service, July, 1984.

The $.1905 estimate overstates 1983 economic costs for two reasons. One reason is that land costs are inflated by the quota system which ties quota output to specific land parcels. The second factor is that the quotas are not allocated on the basis of efficiency. Quota allocations are based on production patterns that existed in the 1940's and 1950's and "lock in" significant quantities of high-cost, low-yielding acreage and exclude a large quantity of efficient acreage. In Georgia, the quota rents for 6 cents per pound.[3] Quota land rents in the Southeast are 3 to 4 times non-quota land rents. Peanut land rents are more than twice the land rents associated with the next-best alternative crop in each of the peanut-growing regions.[4]

Table 2 presents the total economic costs that would occur in a free-market environment. Land costs have been assigned the value of the land rent for the next-best alternative crop in each peanut region plus 20 percent. This value also approximates the current rental value of non-quota irrigated and non-irrigated peanut land in Georgia. In addition, an analysis of production costs has been conducted for each geographical area in the absence of quotas to determine the costs that would exist in a free market if 4.5–5.0 billion pounds of peanuts were produced.

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[2] Economic Research Service, USDA, "Economic Indicators of the Farm Sector," ECIFS 3-1, July, 1984, p. 13.

[3] Economic Research Service, USDA, "Peanuts, Background for 1985 Farm Legislation," AIB No. 469, p. 16.

[4] USDA, "Economic Indicators of the Farm Sector," ECIFS 3-1, (a comparison of land rents in the Southeast, Virginia-North Carolina, and Southern Plains).

TABLE 2.—PEANUT PRODUCTION COSTS AND PROFIT MARGINS IN A FREE MARKET, 1983

	Dollars per acre	Dollars per pound	Profit margins—percent (price support = 27.5)
Total economic costs [1]	420.42	.1560	76
Excluding land	383.30	.1422	93

[1] Land costs included in free-market total economic costs have been assigned the value of the land rent for the next best alternative plus 20 percent. The lower land rent accounts for approximately 50 percent of the decline in costs and the remaining 50 percent is due to the realignment of growing areas from less efficient to more efficient acreage which would take place in a free market.

Source: USDA cost and yield data for each peanut-growing area has been analyzed to determine the production shifts.

Free-market economic costs would average $.1560 per pound (including land). In other words, free-market costs would be approximately 3.6–3.7 cents lower than costs in the current acreage restricted, high-price system. Consequently, the current price-support level is 76 percent above the total economic costs that would prevail in a free-market environment.

COMPARISON OF NET RETURNS TO OWNED INPUTS

Tables 3 and 4 and Charts 1 and 2 illustrate the differences between net returns to owned inputs available to peanut quota holders and to growers of the next-best alternative crops. Table 3 and Chart 1 show net returns to owned inputs for the nation, while Table 4 and Chart 2 show these same returns for the Southeast—a principal peanut growing region in the U.S. The net returns include the returns to capital, labor, and land plus the residual returns to management and risk.

TABLE 3.—U.S. NET RETURNS TO OWNED INPUTS FOR PEANUTS AND ALTERNATIVE CROPS—NATIONAL AVERAGES

[Dollars per acre]

	1975	1976	1977	1978	1979	1980	1981	1982	1983a	1983n
Economic costs:										
Peanuts	236	246	305	322	348	374	406	396	401	401
Corn	124	131	137	137	159	185	284	211	286	286
Cotton	187	218	224	222	262	279	294	319	388	388
Sorghum	76	80	82	82	98	109	123	128	128	128
Soybeans	71	72	81	86	98	108	114	115	115	115
Wheat (Hard Red Winter)	57	56	55	57	68	80	88	90	93	93
Farmer prices:										
Peanuts (dollars per pound)	.197	.207	.215	.210	.210	.247	.275	.275	.275	.275
Corn (dollars per bushel)	2.54	2.15	2.02	2.25	2.52	3.10	2.38	2.14	3.21	2.75
Cotton (dollars per pound)	.51	.64	.52	.58	.63	.75	.55	.58	.66	.65
Sorghum (dollars per bushel)	2.36	2.03	1.82	2.01	2.34	3.04	2.25	2.10	2.85	2.50
Soybeans (dollars per bushel)	4.92	6.81	5.88	6.66	6.28	7.72	6.05	5.13	7.96	6.50
Wheat (Hard Red Winter)	3.37	2.59	2.45	3.04	3.83	3.55	3.70	3.41	3.40	3.60
Yields per acre:										
Peanuts (pounds)	2533.0	2445.0	2431.0	2602.0	2587.0	1526.4	2647.6	2645.2	2336.5	2688.0
Corn (bushel)	85.7	87.1	88.8	100.5	109.6	90.1	109.3	114.7	80.5	109.0
Cotton (pound)	416.0	435.0	505.0	390.0	502.4	367.2	523.9	551.0	465.5	510.0
Sorghum (dollars per bushel)	45.8	46.0	54.1	53.2	61.4	43.2	63.0	57.9	45.9	60.0
Soybeans (bushels)	28.3	25.2	30.2	29.2	31.9	25.9	29.7	31.5	25.2	31.0
Wheat (Hard Red Winter) (bushels)	26.2	24.3	25.2	27.1	32.4	29.7	26.2	29.6	37.0	32.0

TABLE 3.—U.S. NET RETURNS TO OWNED INPUTS FOR PEANUTS AND ALTERNATIVE CROPS—NATIONAL AVERAGES—Continued

[Dollars per acre]

	1975	1976	1977	1978	1979	1980	1981	1982	1983a	1983n
Net returns to owned inputs:										
Peanuts	264	260	218	224	195	3	322	331	242	314
Corn	94	56	42	89	117	94	56	34	53	94
Cotton	26	60	39	5	55	−4	−7	1	−1	24
Sorghum	32	14	16	25	46	22	19	−6	3	22
Soybeans	68	100	97	108	102	92	66	47	86	87
Wheat (Hard Red Winter)	31	7	7	25	56	25	9	11	33	22
Government payments per planted acre:										
Corn	2	2	1	9	4	4	2	6	13	—
Sorghum	2	2	1	9	4	4	2	6	13	—
Cotton	15	9	6	9	13	12	16	71	81	—
Wheat (Hard Red Winter)	1	2	12	15	2	3	7	7	11	—

(1) The data for 1975–1979 taken from "Cost of Producing Crops, Livestock, and Milk in the United States—1975–81," February, 1983, ERS, USDA; the 1980–1983 data sources are "Economic Indicators of the Farm Sector," ECIFS 2-2, 2-3, 3-1, published December, 1983 and July, 1985, ERS, USDA.

TABLE 4.—PRODUCTION COSTS FOR PEANUTS AND ALTERNATE CROPS—SOUTHEAST

	1975	1976	1977	1978	1979	1980	1981	1982	1983a	1983n
Economic costs:										
Peanuts	257	282	350	361	386	407	426	419	419	419
Soybeans	86	82	95	101	107	116	118	119	119	119
Cotton	231	237	228	294	329	356	335	376	351	351
Farmer prices (dollars per pound, dollars per bushel):										
Peanuts (support)	.197	.207	.215	.210	.210	.251	.269	.275	.275	.275
Soybeans	4.65	6.44	6.16	6.39	6.32	8.02	6.11	5.32	7.79	6.50
Cotton	.55	.69	.49	.60	.65	.79	.57	.58	.67	.65
Yields per acre:										
Peanuts (pounds)	3057	2784	2817	3098	2095	1760	2846	3101	2656	3000
Soybeans (bushels)	23.2	21.5	21.6	22.3	26.0	15.1	22.8	25.4	17.4	25.0
Cotton (pounds)	375.0	375.0	266.0	450.0	490.4	344.1	524.3	732.5	537.4	550.0
Net returns to owned inputs:										
Peanuts	346	294	256	290	264	35	340	434	311	486
Soybeans	22	56	38	42	57	5	21	16	17	44
Cotton	−24	20	−97	−23	−8	−85	−36	49	9	7
Government payments per planted acre Cotton	15	9	6	9	13	12	16	71	81	....

Source: See table 1-2.

CHART 1

U. S. NET RETURNS TO OWNED INPUTS
PEANUTS AND ALTERNATIVE CROPS
1975 — 1983

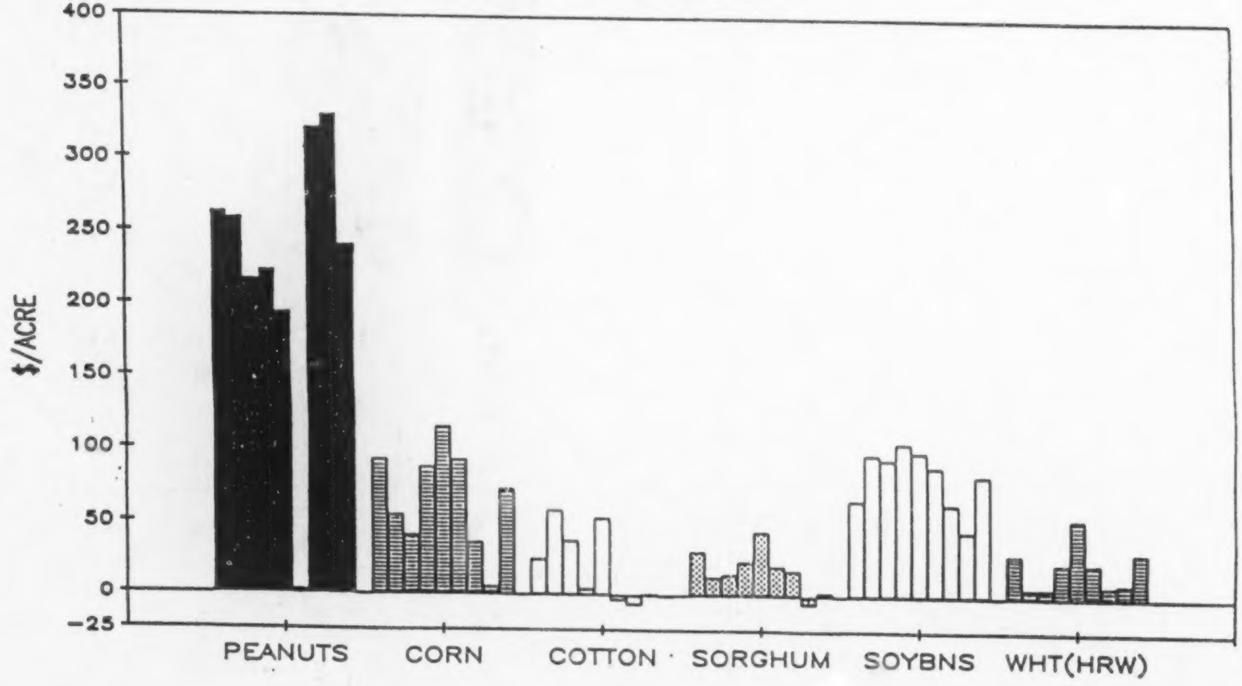

CHART 2

NET RETURNS TO OWNED INPUTS
SOUTH EAST U. S.
1975 — 1983

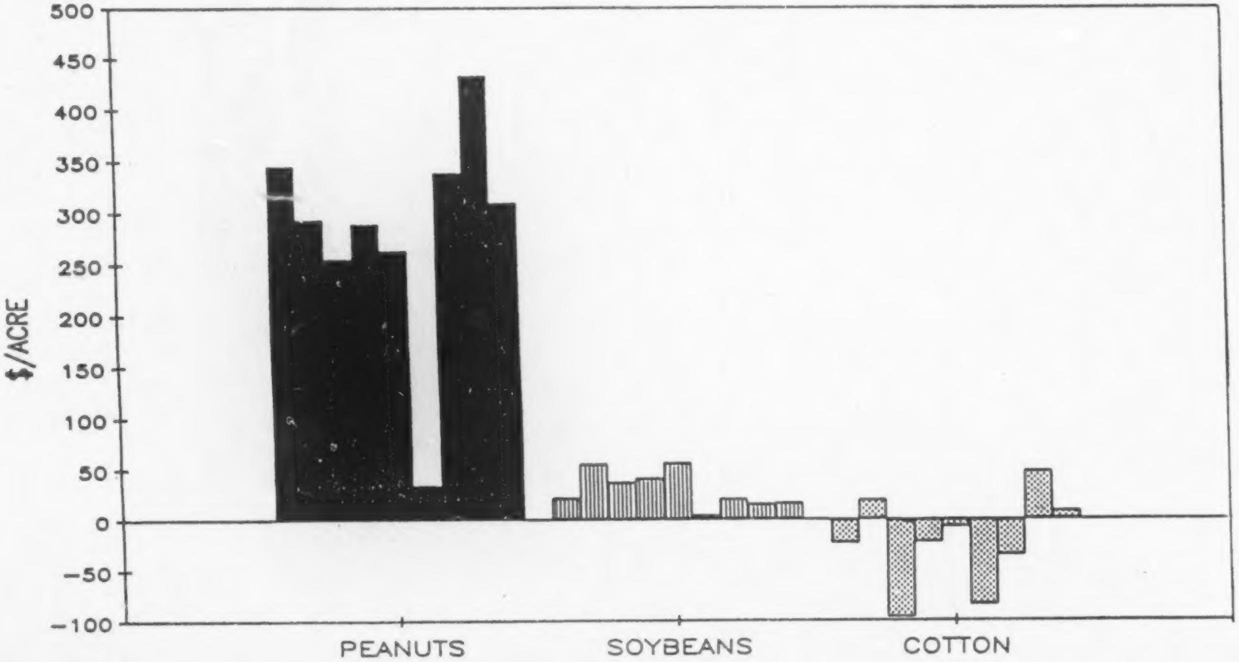

Table 3 shows that net returns to peanut quota holders, on a national basis, are 4 to 10 times the net returns from competing crops. In the Southeast, the net returns to quota peanuts are 6 to 10 times the net return to soybeans—the next best alternative in that region (see chart 2 and table 4).

Tables 5 and 5a illustrate the differences in net returns by presenting the prices for competing crops which provide equivalent returns to the $0.275 peanut price support.

Tables 5 and 5a clearly illustrate the extraordinary returns provided the peanut quota holder. On a national basis, equivalent price supports for corn and wheat would be $4.77 and $12.72 per bushel, respectively. Soybean prices near $14 per bushel would also generate similar returns.

TABLE 5.—EQUIVALENT CROP PRICES TO PEANUT SUPPORT LEVEL, 1983–84 LOAN RATES

	National basis 1983–84	Loan rates 1983–84
Peanuts (dollars per pound)	0.275	0.275
Corn (dollars per bushel)	4.77	2.65
Cotton (dollars per pound)	1.22	0.55
Sorghum (dollars per bushel)	7.37	2.52
Soybeans (dollars per bushel)	13.84	5.02
Wheat (HRW, dollars per bushel)	12.72	3.65

TABLE 5a.—EQUIVALENT CROP PRICES TO PEANUT SUPPORT LEVEL BY PEANUT GROWING REGIONS, 1983

	Southeast	Virginia-North Carolina	Southern Plains
Peanuts (dollars per pound)	0.275	0.275	0.275
Corn (dollars per bushel)	....	6.85	....
Cotton (dollars per pound)	[1] 1.38	[1] 1.38	1.07
Sorghum (dollars per bushel)	....	....	5.40
Soybeans (dollars per bushel)	21.00	....	....
Wheat (HRW, dollars per bushel)	....	....	9.48

[1] Price differentials between Southern Plains and Southeast cotton indicate that the $1.07 per pound price in the Southern Plains is equivalent to $1.34 in the Southeast.

QUOTA BENEFITS

Who receives the benefits of the quotas? According to the 1982 Census of Agriculture, there were 12 farms which harvested over 1,000 acres of peanuts in 1982. These 12 farms produced 38 million pounds of peanuts. Assuming a free market price of 18 to 19 cents per pound, the difference between the free market price and the quota price support is 9 cents per pound. Nine cents times 38 million pounds divided by the 12 farms equals $285,000 per farm. Since not all peanuts grown are quota peanuts, a conservative estimate of the "subsidy" to these large farms is about $250,000. It should be noted that the trend during the past few years has been to larger farms as smaller quota holdings have been absorbed into larger operations. The number of farms receiving subsidies in excess of $250,000 may well be greater than 12 in 1985.

RECOMMENDATION FOR 1985 PEANUT LEGISLATION

The report entitled "The U.S. Peanut Industry, the World Market and U.S. Legislation" examines three alternative approaches for the 1985 peanut legislation. The first is a return to a free market, the second approach is a continuation of the current program, and the third approach is a phase-out of the quotas and price supports over a 3-year period.

The phase-out gradually adjusts quota poundage and prices to move the peanut industry toward a free-market equilibrium by 1989. In the phase-out approach, it is recommended that the law be changed to allow quotas to be sold interstate. This allows the quota holders with high-cost, low-yielding land to sell their quotas to the highest bidders during the early stages of the phase-out.

The analysis concludes that the U.S. Government should seriously consider phasing-out the quota-price support system. The advantages of the phase-out are:

(1) U.S. production will increase from 3.7 billion pounds in 1985 to 4.7 billion by 1990. In contrast, production will stagnate at 4 billion pounds if a quota-price support program is maintained and price adjustments are similar to past history.

(2) U.S. consumption will increase at a 3 to 4 percent pace in contrast to a growth rate of 1 percent which merely accommodates population growth.

(3) Peanut farmer revenues will increase above current levels as the increase in production and consumption more than offset the price decline.

(4) Although profit margins will drop to a more reasonable range of 10 to 20 percent, peanut farming in a free market will still compete favorably with alternative crops in the main growing regions.

(5) Peanut export volumes and earnings will rise in a free market compared with the current program because production costs will drop by 3 to 4 cents per pound.

(6) Consumer expenditures in a phase-out program will remain near $700 million over the next few years. In contrast, an extension of the current program with its historical price increases will raise U.S. consumer outlays to $1 billion—a $300 million rise.

The conclusions derived from the analysis strongly support a return to a free-market scenario with the phase-out providing the peanut farming community with the time required to make the necessary adjustments.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A. AND NATIONAL CONFECTIONERS ASSOCIATION OF THE UNITED STATES

Mr. Chairman, members of the committee, my name is Richard T. O'Connell. I'm president of the National Confectioners Association of the U.S. and the Chocolate Manufacturers Association of the U.S.A. The organizations represent some 118 chocolate and confectionery manufacturers in the United States. I'm accompanied today by Mr. Martin Palmer, president, Palmer Candy Co., Sioux City, Ia., who will make a brief statement.

Prior to Mr. Palmer's statement, I wish to make several comments on the confectionery industry and its relationship to the Peanut Program and its impact on their business.

The U.S. confectionery industry is a $6.3 billion industry in the United States (wholesale value) and employs approximately 64,000 persons.

Our industry manufactures over 4 billion pounds of confections each year and, as an industrial user of peanuts, ranks third in the United States after peanut butter and salted nuts.

Over half of all confections contain peanuts or processed peanut products and in 1984, we used 20 percent of all the peanuts processed in the United States. This amounted to slightly over 400,000,000 pounds.

Major objectives of this industry are to maintain and expand the domestic market and increase exportation of finished products. If we can achieve these objectives, we will expand the use of domestically produced agricultural commodities, including peanuts. To do so will require reasonably and competitively priced ingredients.

The inequities inherent in the current peanut program, are making it difficult for the U.S. confectionery companies to compete, both domestically and abroad.

The average 1984 market price for additional peanuts was $340 per ton. The market price for quota peanuts was $550 per ton. This price differential of $210 per ton between domestic peanuts and those grown for export purposes, means that domestic users are subsidizing the export market.

In a recent issue of the Southeastern Peanut Farmer there were reports some farmers were willing to contract for additionals at $300 to $325 per ton. This likely represents a fair price for the production of peanuts.

In addition, it means that foreign confectionery companies may purchase the same quality U.S. grown peanuts at a 40 percent savings. These same companies can then manufacture confections with lower ingredient costs and sell them in the United States at a lower price than U.S. manufacturers or compete with us better in their own market using lower priced U.S. peanuts.

The higher price domestic users must pay for peanuts not only affects our ability to compete, but means that our products are going to cost consumers more.

It has been estimated, in an analysis prepared by MJB Consultants, Inc. that the current peanut program costs consumers $260 million annually. By moving to a market oriented program, peanut prices and the price of finished goods would decrease and peanut consumption could increase by 200 million pounds, or 10 percent.

We are not advocating a demise of the Peanut Price Support Program. Confectionery manufacturers need an adequate supply of good quality peanuts. We are asking, however, that the Peanut Program be moved toward a market oriented program recognizing that the confectionery industry also operates in the world market place.

Restrictive programs that protect one segment of the agriculture community, often have a negative impact on others.

In 1983 the confectionery industry exported $165 million of confections this was an $11 million decrease in exported confections from 1982.

During that same period, confectionery imports increased by $34 million. This represents a continuing trend whereby finished confectionery imports have increased more than 50 percent during the last two years.

The primary reason confectionery imports have risen, is the price disparity between ingredient costs in the United States and world prices and subsidization of ingredients by other countries.

The confectionery industry supports the concept of the Administration's peanut proposal, to move toward a market oriented program; except the quota and two-tier price system should be terminated immediately.

We believe that any peanut program should take into account the following factors:

1. It should eliminate poundage quotas. This protects all peanut growers quota holders (70 percent of quotas are leased) which adds significantly, and unnecessarily to costs of production. In addition, it artificially inflates the cost of peanuts for domestic usage, and the value of the land on which they are grown.

2. The two-tier pricing system should be eliminated. The current two-tier price approach means that users of domestic peanuts are subsidizing additional peanuts, those used for export, and are therefore subsidizing the ingredients their foreign competitors use. Elimination of the two-tier price would mean savings to domestic users that would ultimately be passed on to consumers.

3. Any commodity program should promote exports, not only of peanuts, but also products which contain peanuts. In addition, the peanut program should not be so designed to maintain higher domestic prices which encourages the importation of products containing peanuts.

4. Any program should maintain the quality of U.S. produced peanuts.

We recommend and urge the committee, to move forward toward a market oriented program.

STATEMENT OF LARRY J. PRYOR ON BEHALF OF THE PEANUT BUTTER & NUT PROCESSORS ASSOCIATION

Mr. Chairman, I am Larry Pryor, director of purchasing of Lance Inc. based in Charlotte, NC, which is where our headquarters plant is located. We also have manufacturing operations in Greensville and Arlington, TX. Our company processes a wide range of snack food products including peanut butter cracker sandwiches, packaged peanuts and packaged tree nuts.

This appearance is entered in behalf of the Peanut Butter & Nut Processors Association of which I am the president with the Association headquarters in Potomac, MD. The function of this association is to represent processors and packers in various forms of peanuts and the several tree nuts.

This appearance involves solely the peanut poundage quota allotment and price support program. Although our members use the various tree nuts some of which do have U.S. Department of Agriculture programs, they are programs with which we can live; and therefore, we do not feel we should take the committee's time to discuss them. Such is not the case regarding the Peanut Program which we know from experience renders a major disservice to peanut processors and U.S. consumers. We support the recommendations of the Secretary of Agriculture and the Department to in effect phase out the current program over a 5-year period. Our reasons for this recommendation primarily are as follows:

1. Although we do not advocate change just for the sake of change, essentially this same program has been in effect since 1941. Conditions today are entirely different than existed in 1941; and whatever merit there may have been in the program at that time, such is not the case now. Those who had the allotments in 1941 and in years shortly thereafter were the individuals who actually produced the peanuts whereas a very substantial quantity of the production today occurs on rented allotments. Over 40 years ago similar type programs existed for numerous commodities;

~~but as committee~~ members know, these programs all have been phased out except for peanuts and tobacco. We are not knowledgeable regarding tobacco but we are convinced that the Peanut Program at this time does not represent a sound government policy.

2. The current Peanut Program benefits no one except the current allotment owners many of which do not produce peanuts themselves on their alloted acreage. It renders a great disservice to those who wish to produce peanuts for the U.S. market, especially young farmers, but who cannot obtain allotments except by buying land which has an allotment or paying a fee to a third person who has an allotment to then grow peanuts on his own land. It renders a great disservice to peanut product processors and consumers. In 1984 it resulted in peanuts produced for the United States market being sold for approximately 28 cents per pound in contrast to the price of additional or export priced peanuts of 18 cents per pound which are of the same kind, grade and quality. Why should the U.S. Government have a policy that penalizes its own citizens who want to buy a wholesale food product and then authorize the sale of that same food product to citizens of every other country in the world at a much lower price?

There is an old saying that one good turn deserves another. In this instance it is our contention that one bad governmental policy causes other bad governmental policies to follow. Because of the allotment program and the mandatory high price support system, there is in effect a virtual embargo on peanut imports to protect the Commodity Credit Corporation from taking huge losses if foreign produced peanuts should be imported at the much lower price and displace the high priced U.S. quota peanuts. Yet because of the decision of the Government to limit governmental losses, the allotments are tight and provide adequate supplies only when weather conditions result in a good crop. While we do not seek to import peanuts, if the supply gets tight the price will rise rapidly and it takes us about 6 months employing specified governmental procedures to get peanut imports authorized. This is not the case concerning practically every other legitimate article of commerce. If a user cannot obtain what he wants domestically, he may import it; so the allotment program causes us a problem in that regard.

Then there is a third unsound and unfair governmental policy which prevents U.S. manufacturers from obtaining the additional or export priced peanuts if the manufactured product is to be shipped to Canada or Mexico. As a practical matter there is little or no market potential in Mexico but there would be a substantial market in Canada. The Government sells the export priced peanuts to the Canadian manufacturers with whom our manufacturers compete but they will not allow us to buy the same export priced peanuts for processing in this country to be shipped to Canada. Our manufacturers may, and we believe some of them do, actually purchase the additional peanuts, ship them to Canada as additional or export priced peanuts and then after they arrive in Canada are processed into peanut butter and other peanut products. In this way U.S. manufacturers can compete for the Canadian business although it is awkward to do so and the Canadian consumer benefits by the additional competition. Now I ask you, who loses? There is one and only one big loser, it is U.S. workers. It is hard to believe, but U.S. Department of Agriculture administrative policy on this issue in effect provides that United States additional or export priced peanuts may be processed for sale in Canada for Canadian consumers just as long as American workers are not involved in the processing. Admittedly this practice could be corrected administratively by the Department of Agriculture even under the current allotment program. We have consistently urged the Department of Agriculture to do so and the Department has declined for reasons which in our opinion entirely are unreasonable.

3. It should be the policy of the United States government to treat all citizens alike. Except for the fact that we know it is true, it is hard to believe that in this country the Government will say to almost all citizens that they may not produce peanuts for the United States market unless their parents or grandparents produced them in 1941; or they purchased land owned by peanut allotment owners in 1941; or unless on an annual basis they pay tribute in the form of a rental fee to a third party allotment owner each year for the privilege of producing the peanuts on their own land but only in the same county as the allotment owner.

Our experience has been that most folks who have not had knowledge of the Peanut Program find it hard to believe that such a policy actually exists in the United States. We content that it should be ended on a phase-out basis within not more than 5 years to allow a period of adjustment.

[The following pamphlet was submitted by Larry Pryor, see p. 198 for oral reference:]

The Peanut Poundage Quota Allotment and Price Support Program—What It Is, Its History, Who It Benefits, Who It Hurts, and What Should Be Done About It

WHAT IT IS

It is a program established by Congress and administered by the United States Department of Agriculture. It gives a limited few individuals the exclusive right to produce peanuts in the United States for the United States market at a guaranteed high level of price support. All others growing peanuts in the United States have had a guaranteed price support of only approximately one third of the amount of the allotment holders, and the peanuts they produce must be exported and sold at the world market price or crushed for peanut oil which also brings a much lower price. These peanuts may not enter the United States regular edible peanut market except under unusual and special circumstances (known as immediate buy-back) or after having been bought by the Commodity Credit Corporation (an arm of the U.S. Department of Agriculture) and then later resold by the Commodity Credit Corporation. This occurs usually only when there is a very short crop produced by the regular poundage quota allotment owners.

ITS HISTORY

In the late 1930s the United States economy in general was coming out of the great depression except that U.S. agriculture still had not recovered. In 1938 Congress enacted legislation known as the Agricultural Adjustment Act which authorized the Department of Agriculture to establish allotments for various crops. Limited quotas for peanuts were specifically authorized by legislation approved April 3, 1941. At that time under the allotment system, a person who had been growing a particular crop was given a U.S. federal governmental allotment to produce that commodity in the future. The amount of the allotment was a historical percentage of what that particular person (farmer) had been producing in the past. It limited the amount which could be produced but provided for an attractive price support for the amount of the allotment authorized to be produced. When this system was established, it made it difficult for those who had not been producing a certain crop but wished to start producing that particular crop. It did, however, possess some equity in that those who had been producing the crop were given the allotments and they were the individuals who actually produced that crop in the following years. As time went by, however, this allotment system has been eliminated for all agricultural crops except for peanuts and tobacco. Under the allotment system, the allotment runs with the land. The farmer who acquired a peanut allotment in 1941 because he had been producing peanuts on his land in the previous years became the owner of that allotment. When he sold the land, the allotment went along with the land. If his children inherited the land, they inherited the United States granted peanut allotment. An owner of an allotment, however, need not actually produce the peanuts; instead he may rent the allotment on an annual basis to someone else and that person who does not have an allotment may produce peanuts on his own land with the rented allotment. The person renting the allotment must produce the peanuts on land which is in the same county as the land of the allotment owner from whom he rents the allotment. It cannot be transferred out of the county. Peanut allotments are government annointed monopolies — truly a feudalistic land system.

WHO IT BENEFITS

1. The Peanut Allotment Owners.

Should they wish to actually farm the peanuts, they may do so with a U.S. government guaranteed high price support; but if they do not wish to actually grow the peanuts, they may then rent their allotments on an annual basis for a substantial amount. While the amount of the rental may be conditioned on the crop outturn, usually there is a specific amount paid for the rental with the allotment owner getting his money up front without the responsibility of planting, producing and harvesting the peanuts including the facing of possible adverse weather conditions.

2. Consumers of Peanut Products Outside of the United States.

Peanuts produced which are not allotment authorized are known as "additional" peanuts most of which are exported and may be used for edible purposes in any country in the world except the United States. These export priced peanuts in 1984 brought approximately 18^c per pound on an inshell basis compared to approximately 28.5^c per pound for exactly comparable peanuts sold to American customers. Foreign peanut and peanut product consumers get a tremendous subsidized benefit at the expense of United States consumers.

WHO IT HURTS

The list of those who the allotment program hurts is long. The principal ones are as follows:

1. United States Consumers.

In 1984, United States consumers purchased peanuts, peanut butter and other peanut products reflecting a peanut inshell price of $550 per ton. The Commodity Credit Corporation export sales price was $425 per ton but many private contracts were at a significantly lower price. Since most of the 1984 usage was from the 1983 crop which was short because of the drought in that year, the spread between the price support allotment poundage quota peanuts and the export priced peanuts was less than normal but it still meant a contrast of approximately 28.5¢ per pound versus 18¢ per pound. It is estimated that United States consumers paid approximately $250 million more in 1984 than they would have had to pay had peanuts been produced on a free market basis in the United States. Some producers have stated that the $550 per ton was an appropriate price and that it is only because of the allotment system that makes it possible for them to participate in the world market at a much lower price. They contend that it is their ability to average their dollar returns between quota peanuts and additional peanuts that enables them to come out on a favorable basis. Even if this is correct, does it speak well for the United States to have a policy which benefits foreign consumers at the expense of United States consumers? As a practical matter, it is suggested that the export priced peanuts in themselves bring returns with which the producers of those peanuts are pleased. Otherwise, it is believed that peanut producing interests in the United States would not have opened in 1984 an office in Amsterdam, The Netherlands, for the heavy promotion of export priced peanuts throughout Europe. There is also much other promotion by producers and the Department of Agriculture of export priced peanuts in other countries of the world, especially Canada, and it is suggested that this would not be done if such sales were not profitable.

2. Young Farmers Who Would Like to Grow Peanuts for the U.S. Market.

A prominent peanut producer spokesman in one of the main peanut producing states recently has been quoted as saying:

> "We want to leave the price of additionals as low as possible so as to discourage people from coming into the business of growing peanuts. We say set it as low as the Secretary (of Agriculture) can."

Does this reflect a sound United States governmental policy regarding peanuts? Approximately 40 percent of the United States produced poundage quota peanuts are grown in just a few counties in Georgia. In fact, there are only a very few counties in the entire United States in which quota allotment peanuts may be produced for the United States market. Would-be producing farmers in most counties in the United States are absolutely precluded by federal law from producing peanuts for the United States market. In a significant number of states where there are no peanut quota allotments whatsoever, peanuts could be produced in substantial quantities profitably. In states where there are allotments in some counties the peanuts may not be produced in other counties. Ironically, in some counties in some states which do have peanut allotments, the land is not best suited for peanut production. There are many other locations where the yield and profitability would be much greater.

3. Those Who Farm But Do Not Own the Allotments.

They, therefore, must pay substantial rentals to privileged third parties to whom the federal government has given the allotments in order to legally produce peanuts for the United States market. Stated otherwise, those who do the growing benefit from the program only if they are also the owners of the allotments and not if they rent the allotments. Whenever the federal government increases the price support for the quota peanuts as it has announced it will do in 1985, the increased benefit as a practical matter, usually goes to the allotment owner and not to the farmer who tills the soil, cares for the peanuts and then harvests them.

4. United States Manufacturers of Peanut Products and Packers of Peanuts.

U.S. manufacturers must pay an inflated price because of the poundage quota allotment system with its high price support. Also they cannot be assured of an adequate supply. Years ago the peanut program was costing the taxpayers a huge amount of money. In order to save this tremendous expense of many millions of dollars to taxpayers, the acreage allotments were reduced to prevent the Commodity Credit Corporation from having to buy excess peanuts. Stated otherwise, the quantity represented by the current allotments tonnage wise is very close to that of the projected U.S. market usage.

If there is a good crop, as occurred in 1984, the supply of United States produced peanuts is adequate. However, if there are unfavorable weather conditions such as a drought or excessive moisture at harvest time, the result can be disastrous. This occurs because in order to further protect the allotment and price support program, imports are virtually prohibited in accordance with Section 22 of the Agricultural Adjustment Act. In order to get this provision relaxed and imported peanuts authorized, an interdepartmental procedure is required which consumes about six months. Many governmental departments and agencies get involved including the President and the White House staff, the Department of Agriculture, the International Trade Commission, the Department of Commerce, the Office of the Special Trade Representative, the State Department, the Department of Labor, the Office of Management and Budget, and the Small Business Administration. While all of this is going on, disastrous market conditions can occur. For example, in 1980 there was a serious drought. In August 1980 shelled peanuts could be purchased wholesale for 45¢ per pound. By December, however, the price had increased to $1.75 per pound. This occurred because United States manufacturers in September 1980 were not allowed to import the peanuts they needed as could have been done in the case of almost any other commodity.

The 1983 crop also presented a very difficult situation. Prices were high, quality was not the best and the supply situation was very tight.

Manufacturers and their employees also are placed at another disadvantage under the current allotment program. The export or additional peanuts may also be acquired by United States manufacturers if the additional peanuts are to be processed in the United States for export; except, however, they may not be obtained if the processed peanuts or products are to be shipped to Canada or Mexico. It is recognized that as a practical matter there is not substantial export opportunity to Mexico. There is, however, tremendous export potential to Canada which is a major peanut using country on a per capita basis. The rationale which the Department of Agriculture recites as justification for not allowing United States manufacturers to ship to Canada peanut products processed from additional peanuts is to prevent the possibility of fraudulent reentry even though under Section 22 of the Agricultural Adjustment Act practically no peanuts may be imported into the United States from any country. Further, peanut butter imports could be monitored just as well if United States manufacturers were permitted to use additional peanuts for products shipped to Canada. Under the current system it is a policy of the United States government to allow Canadian peanut butter manufacturers to buy export priced peanuts but not to allow United States manufacturers to also buy these same export priced peanuts in order to compete in the Canadian market with the products produced by Canadian manufacturers with export priced peanuts. As a very practical matter, the potential for fraudulent reentry of United States produced peanut butter and other peanut products shipped to Canada is less than in the case of products processed by Canadian manufacturers because a peanut product such as peanut butter if exported to Canada should be labeled in French as well as in English and its identity readily apparent. To the contrary, shelled export priced peanuts shipped to Canada lose their identity by being processed into peanut butter and other peanut products. While this intolerable situation pertaining to Canada came about as a result of the peanut program and its two price system, this situation could be corrected by the Department of Agriculture by administrative action without awaiting Congressional action on the program itself.

Thus, the peanut program not only is unfair and unsound at its base, but it also results in very bad side effects such as prohibiting peanut imports into the United States and preventing United States manufacturers from competing in the Canadian market. The peanut is a legitimate article of commerce and there is no basis to impose these severe restrictions on international trade. U.S. peanut quality controls are excellent and for this reason U.S. manufacturers do not wish to import peanuts when the U.S. supply is adequate. It is suggested that it is for this reason of high quality controls and quick service that Canadian peanut processors prefer United States produced peanuts.

A question has been raised as to whether there actually would occur the economic benefits which could accrue to the U.S. consumer should there be established a free market in peanuts. Instead it has been suggested that such benefits would be illusory and in the alternative serve only to increase profits of peanut product manufacturers. The competition in peanut product manufacturing as in the case of most products is intense. Without question, increased supply availability and competitive pricing of peanuts would result in benefit in full measure to the ultimate consumer.

WHAT SHOULD BE DONE ABOUT IT

It is recommended that the peanut poundage quota allotment and price support system be phased out during the period of the next extension of the Agricultural Act which extension will occur in this year. This is because, except for the very privileged poundage quota peanut allotment owners and foreign consumers of United States peanuts, no one benefits from the program. It renders a serious disservice and disadvantage to all others.

It should be recognized that most agricultural crops are produced without the existence of programs of the United States government and that frequently it is those crops for which there is no governmental program which provide the best returns to producers. In the current peanut producing areas, there is also heavy production of both pecans and soybeans. These are free market crops. These agricultural industries are rapidly growing and expanding and doing so quite profitably.

It is believed that a statement made by Agriculture Secretary John R. Block on January 9, 1984, in speaking to the American Farm Bureau Federation in Orlando which included the following statement is particularly significant:

> "Consider this: In 1930 we harvested 1.1 million acres each of peanuts and soybeans. With peanuts we have since had rigid controls, prices above market clearing levels, and little regard for world markets.

> "Soybeans went another direction. There were no production controls, minimal price supports, total exposure to world markets.
>
> "Here's what happened.
>
> "By 1980 the U.S. harvested about 1.4 million acres of peanuts-slightly more than in 1930. However, we harvested about 68 million acres of soybeans. The farmer's value of production for peanuts was about $500 million in 1980. The value of soybean production reached $13.5 billion."

The current U.S. peanut program causes much injury to U.S. citizens. If the crop is short, they are adversely affected by the short supply and not the best quality. At all times the peanut products they purchase cost considerably more because of the program. It is of little consolation to the consumer that the former high governmental cost has been shifted from him as a taxpayer to him as a consumer in the form of unnecessarily high prices he must pay for peanut products along with restricted supplies.

Secretary of Agriculture John Block in behalf of the Department and the Administration recently has submitted to Congress a proposed new market oriented agricultural program. Among other things it would phase out the peanut program over five years. Also, however, commencing in 1986 any person in any county in any state in the United States could produce peanuts in any quantity for sale in the United States market. This proposal of the Department of Agriculture is considered to be most constructive and would correct the various unsound provisions of the current peanut program as hereinbefore recited. Support of this program is urged.

PEANUT BUTTER AND NUT PROCESSORS ASSOCIATION
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A local call from the Washington, D.C. metropolitan area.

March, 1985

STATE OF NORTH CAROLINA,
DEPARTMENT OF AGRICULTURE,
Raleigh, NC, April 1, 1985.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Dirksen Senate Office Building, Washington, DC.

DEAR JESSE: I regret that my schedule prevents me from being present at your Committee's hearing on the Peanut Support Program on April 3, 1985. The North Carolina General Assembly is currently working on the budget for the Department of Agriculture and I feel it best to remain in Raleigh until their task is completed.

In regard to the Peanut Program, I would like to say that I fully support the position of the North Carolina Peanut Growers Association. The current system of price supports and poundage quotas is working well and serving the needs of both quota and non-quota growers alike. The two-tiered price support system has allowed growers to meet the needs of both the domestic and foreign buyers and should be continued.

North Carolina farmers have benefited from the peanut program and have worked to ensure that the program did not place a burden on the American taxpayer. The program is now operating efficiently and is serving those that should benefit, the American farmer.

With all good wishers.

Cordially,

JAMES A. GRAHAM, *Commissioner.*

STATEMENT OF THE NORTH CAROLINA FARM BUREAU FEDERATION

Mr. Chairman and members of the committee, the North Carolina Farm Bureau appreciates the opportunity this committee is providing us to express the views of our peanut producer members regarding a peanut program for crop years 1986–89.

The phrase, "If it ain't broke, don't fix it" appears applicable to the present peanut program. The peanut program is not broken; it has worked quite well and has achieved the objectives of:

(a) providing an adequate supply of high quality peanuts and products at reasonable prices;

(b) providing predictability and stability for most peanut farmers;

(c) reducing the cost of the peanut program to the federal treasury.

Had it been "broke", the peanut program could not have achieved these objectives. The modifications which were made to the program via the 1977 and 1981 farm bills overcame two (2) major criticisms of the peanut program. They were: The cost of the program to the Federal Treasury; and the denial of new grower entry into peanut production.

Some opponents of the peanut program are now suggesting that the program must be changed to conform with other programs operated by USDA: or that the peanut program is adding 12 to 15 cents to the consumer price of peanut butter. To those suggestions, we say "hogwash".

The suggestion that the peanut program should conform to the wheat, or feed grains, or cotton programs fails to recognize that peanuts cannot be stored on the farm where produced for extended periods of time as is possible for some other commodities. Peanut quality and usability will deteriorate quite rapidly during the heat of early summer if not placed in cold storage.

The program proposed by the administration simply will not work for peanut farmers, the industry or the consumer. That proposal is not a "fix-it" approach; it is a blueprint of disaster for the peanut industry. Without reservation, Mr. Chairman, the North Carolina Farm Bureau opposes the administration's Peanut Program proposal for the 1985 farm bill.

On the issue of the price impact on a jar of peanut butter, I suggest that we only need to look back at the experience of the drought-shortened crop of 1980. Yes, peanut prices did increase substantially after most of the crop had moved out of the hands of farmers. However, the price support program did not cause that run-up in price. It was the short supply situation. However, with the increase in the import quota, which peanut farmers supported, the price for raw peanuts went back down to more normal levels.

Peanut butter prices increased sharply as a result of the 1980 crop short-fall but when the supply became more favorable, the consumer prices did not return to more normal levels. We believe this subcommittee should attempt to obtain comparative prices of farmers stock peanuts, the prices of raw shelled peanuts, and the prices of peanut butter for the period 1977–84 for comparative purposes. It might provide an indicator of what influences the consumer prices of peanut butter the most.

We continue our support for a supply-management peanut program and recommend that the basic provisions of the 1981 peanut program for crop years 1986 through 1989 with some minor modifications. Those modifications are:

National poundage quota. We recommend that the national poundage quota be established annually on the basis of domestic utilization, including seed, using either the domestic usage for the preceding crop year or an average of the two preceding crop years.

Farm poundage quota. We recommend that the annual farm poundage quota be established for each farm having a peanut quota in 1985 by applying a factor (percentage) which reflects the change in the national poundage quota. If the national poundage quota is increased, increase the farm poundage quota. If the national quota is decreased, decrease the farm quota.

Price support level. Our policy states, "We recommend that the quota loan be increased to reflect the index of prices paid by farmers during the three preceding years." We believe the prices paid index to be reflective of the costs borne by farmers in producing, harvesting and curing peanuts. If the cost of production provision is continued in peanut title, we recommend the inclusion of land costs as an expense item, and consideration of cost of production data developed by Land Grant Universities. Mr. Chairman, you will recall that USDA changed its formula for calculating cost of production midway through the 1981 farm bill. The 1985 farm bill should be specific with regard as to how the quota peanut price support level will be determined rather than risking a recurrence of similar manipulation in the future.

Area and type pools. We urge the continuation of the area, type and segregation pools as provided in the 1982–85 program rather than the establishment of a national pool.

"Buyback provision". We support the continuation of the buyback of additional peanuts as authorized in the 1981 farm bill. The buyback provision permits a responsiveness to market demand when conditions warrant and increases the potential for the additional pool to show a profit.

Quota undermarketings. We urge that the provision for carry-forward of undermarketings of quota peanuts be continued. Such carry-forward for 1986 should be inclusive of the 1985 crop accumulated undermarketings of quota peanuts.

Sales, lease and transfer. We urge continuation of the language of section 703 of the Food and Agriculture Act of 1981 with regard to the sale or lease of peanut poundage quota within the same county.

Mr. Chairman, peanut producers have attempted to make the program work to the advantage of growers, shellers, manufacturers, exporters and consumers. When Mother Nature has permitted, they have produced an adequate supply of high quality peanuts which have become recognized around the world.

The present program is working. We strongly urge that it be continued with the modifications suggested. These modifications are reasonable and fair and will permit the peanut program to continue work for the benefit of all.

We thank you for holding this hearing and permitting us to share our suggestions for a peanut program for 1986–89.

STATEMENT OF C. WADE FERGUSON, FARMER AND BUSINESSMAN, EMPORIA, VA

Mr. Chairman, I am C. Wade Ferguson, a farmer and businessman from Emporia, VA. First, I would like to thank you for giving me the opportunity to come before you and express some problems and suggestions with the present Peanut Program.

I have been actively involved with the production of peanuts for almost 50 years and therefore, have some insight as to present and future problems associated with the present Peanut Program, as well as the problems of the peanut producer.

I would like to first indicate to you that the peanut farmer cannot continue to produce peanuts with the present minimum price support levels. I support my statement with the following figures and background information:

My land grant college, Virginia Polytechnic Institute and State University, prepares crop budget guides on all crops each year. When referring back to crop budget guide for 1980, I find that total cash expenditures for the production of an acre of peanuts was indicated at $433. This does not include land, management, quota rental or overhead. This was what a farmer had to spend in cash to produce an acre of peanuts in 1980. As I review the crop budget guide prepared by that same university for 1985, I find that the total cash expenditures are projected to be $529 per acre or a 22 percent increase during this short period of time.

As we look at what the farmer received at the market place when he sold his peanuts, it has remained the same for the last 3 years at $550 per ton. For the 1985 crop year, he will receive a $9 per ton increase in the basic support price. Therefore, one can readily see that over the last 4 years, farmers have had $96 per acre increase in the cost of production and cash expenditures, yet they are basically receiving the same price per pound at the marketplace today which they received 4 years ago.

Now, let's look at how the consumer fared during this same period of time. An individual purchasing a 12-ounce can of roasted cocktail peanuts in 1980 paid $1.59 for it. Today, that same 12-ounce can costs $2.29 or an increase to the consumer of 44 percent. The processing industry has, therefore, been able to pass along their respective increases in costs to the consumer. As one can see, this has been a rather healthy increase and maybe at the expense of the farmer with his locked-in price support level.

When asking the industry if they could sell a 12-ounce can of peanuts today for the same $1.59 price which they received 5 years ago, one would receive an emphatic no. They could not sell the product at that price and remain in business. This is what I am trying to impress upon all of you here today. The peanut farmer cannot stay in business unless he can receive a fair and just return for the peanuts which he produces.

Therefore, I have the following suggestions and/or recommendations:

1. I firmly believe that the peanut farmer must have some type of a supply management program for the production of peanuts.

2. In basics, I support the position of the National Peanut Growers Group on the Peanut Section of the 1985 Farm Act.

3. I firmly believe that the peanut producers in this nation of ours should receive a fair and just return on peanuts which they produce for domestic use.

4. Any peanut program should allow for the peanut farmer to recover his increase in production cost by increasing the minimum support levels by that amount each year.

5. The area type pool arrangements operated by the area growers association work well except in the length of time which the producers must wait for their prorata share of the pool. I recommend that some type of guidelines or policy be established whereby producers can receive a portion of their expected profits from the pool earlier than they have been received in the past three years.

In closing, I would like to say we must look seriously at the major problems facing the peanut producer and take whatever action necessary in order that we can have a stable peanut industry and progressive peanut farmers.

I sincerely appreciate the opportunity given to me today to express my views and suggestions to you.

Thank you.

STATEMENT OF WILBUR T. GAMBLE, INTERIM CHAIRMAN, GEORGIA AGRICULTURAL COMMODIITY COMMISSION FOR PEANUTS

My name is Wilbur T. Gamble, a farmer and peanut producer from Terrell County, GA. I am testifying today in behalf of the Georgia Agricultural Commodity Commission for Peanuts which represents some 11,000 Georgia peanut farm families. I currently am interim chairman of the commission.

As I am sure the committee is aware, Georgia is the Nation's number one peanut-producing State, accounting for almost half of the U.S. production. The farm value of the crop in our State last year was $521 million, or about one-third of total farm value for all crops, making peanuts by far our most important cash crop. Peanuts are produced commercially in roughly one-half of our 159 counties.

Some economists say that every dollar of farm income turns over seven times in the economy. Given this multiplier effect, peanuts have an estimated $3.5 billion impact on the economy of Georgia. In many of our rural counties, the entire economy—the life blood of our communities—depends on peanuts. I have been the chairman of the board of commissioners of my county for a number of years, and I can personally testify that without peanuts as a viable crop we would be in economic ruin. Thus, you can readily see, Mr. Chairman and members of the Committee, why peanuts are a vital part of the economy of Georgia—reaching far beyond the producers and processors of this commodity.

For this very reason, we are deeply disturbed by—and are unalterably opposed to—the peanut proposal put forward as a part of the administration's farm bill currently before the Agriculture Committee of the House and Senate. The proposal would abruptly terminate the current peanut program and destroy the system of peanut production as we know it today. The administration's peanut proposal not only would be revolutionary—as some have described it—but would, in our opinion, be disastrous as well.

The Secretary of Agriculture has stated repeatedly that the administration's new farm program would be phased in over a period of years to ease the adjustment on producers and the agricultural economy. In the case of peanuts, nothing could be further from the fact. The peanut title contained in H.R. 1420 and S. 501 would abolish outright the two-tier peanut program effective after this crop year. It would be replaced by an extremely low loan program and with no restrictions on production whatever.

For existing quota holders, there would be a 5-year phase out whereby they would receive direct payments based on the difference between an established price and a 3-year moving average of U.S. market prices. But when you plug in the administration's own figures for the established price and the moving average market price, there would be a direct payment to quota holders only in the first year—1986—when the established price would be set at last year's quota support level. After 1986, the established price would be a declining percentage of the moving average market price, which, by the administration's own projections, would be above the established price. Thus, the direct payment after 1986 would be zero. That, we contend, is not a phase out. It is sudden death.

The subcommittee might be interested to know that the projected, one-time cost to the Government of the direct payment in 1986, again according to the administration's own projections, would be $75 million. That compares to the less than $5 million annual cost of the current program. In other words, the cost to the taxpayers of replacing the present peanut program with the administration's proposal would be greater than the total cost of the existing program over the next 15 years.

This does not take into account the impact that destruction of the existing program would have on a stable supply of peanut products at reasonable prices consumers have come to expect, or on the income of peanut producers which has permitted them to maintain a stable production base over the years. That stability, so greatly needed in other segments of the agricultural economy, would be placed in dire jeopardy under the administration proposal.

Contrary to some claims, we do not believe that destruction of the present program would result in any significant decrease in prices of peanut products to consumers. The farmer's share of the retail price of peanut butter is only about 37 percent. Factors other than the farm cost of peanuts—such as manufacturing and labor costs, packaging, advertising, profit margins, etc.—have far greater influence on the retail price of peanut products, as they do on most food products—bread for example. We doubt seriously that prices paid by consumers for peanut butter and other products would be reduced even if the farm price of peanuts were slashed to the bone as some would like. Indeed, we believe the consumer, along with the producer, would be a certain loser under the administration's bill because the existing stable production pattern for peanuts would be replaced by an erratic, unpredictable, up-and-down supply cycle.

Mr. Chairman, our peanut producers strongly favor continuation of the existing two-tier peanut program that was first initiated in the Farm Act of 1977. We believe it is a proven approach to balance production with need while at the same time providing sufficient flexibility to meet market demands, both domestic and export.

Since consideration of the 1985 farm bill began, the Secretary has stated frequently that American farmers are unhappy with existing farm programs. He says this is what he learned through the listening sessions he conducted in different parts of the country last year.

Well, we peanut farmers do not think he listened very well to us. If he had, he would have heard from a number of our representatives who spoke at the sessions that peanut farmers across the belt like the current program. Indeed, this has been affirmed through a series of polls of producers conducted in several major peanut states. In Georgia, for example, 90 percent of our growers said they want to see the program continued with some modifications.

The fact of the matter is the two-tier program works and has produced positive benefits for producers, consumers, and taxpayers. Here are some of the benefits:

1. Program costs have been dramatically reduced through production quotas on domestic comsumption. Costs have been at the $5 million level or less for each crop year since the 1981 act was put in place. Since 1978, the first year under the two-

tier system, through 1983, costs have aggregated less than $50 million, or one-tenth of 1 percent of the net CCC farm program expenditures for all commodities during that period.

2. Producers are assured a fair price for quota peanuts which in turn assures a stable production base.

3. An adequate supply of peanuts to domestic consumers at reasonable prices has continued in an orderly fashion except for the 1980 crop disaster.

4. Strict quality controls, which are built into the peanut program, have been maintained, thus assuring both domestic and export consumers the highest quality peanuts available in the world.

5. The two-tier system provides a vehicle for assuring a continuity of supply of peanuts for export, although it involves somewhat greater financial risks for growers and handlers. Although the United States is a distant third in world peanut production, we are the largest exporter of peanuts for food purposes.

6. Objections to high quota leases have been satisfied to a large degree by severe restrictions placed on quota leasing.

7. Unlimited production by any farmer is now permitted because of the suspension of acreage allotments, and nonquota holders are now producing in increasing numbers and quantity.

While favoring a continuation of the existing peanut program in general, the Georgia Peanut Commission recommends and requests that the Congress modify some specific provisions of the present law. The recommended changes are discussed in detail in the formal statement presented by the National Peanut Growers Group of which the Georgia Peanut Commission is a member. But I would like to emphasize the following:

1. Increase the national poundage from 1.1 million tons, in effect for this crop year, to 1.3 million in 1986, which is in line with anticipated domestic consumption and related uses. The Secretary should be required to increase the national poundage quotas in subsequent years to meet domestic need above 1.3 million, plus a reasonable reserve.

2. Adjust the quota support level. During the life of the 1981 act, the quota support loan level has increased by less than half a cent above the current level of 27.5 per pound. We believe growers are entitled to a reasonable increase in the minimum support rate effective with the 1986 and subsequent crops.

3. Make technical changes to assure that additional (nonquota) peanuts grown and contracted for the export market are not diverted into the domestic market in competition with quota peanuts and otherwise to improve the administration and operation of the program.

Mr. Chairman, in summary, we want to emphasize again that the current program works. We can find absolutely no justification, especially at a time of severe economic stress in American agriculture, for throwing out a sound, workable, minimal-cost program for a $75 million hoax upon consumers, producers, and taxpayers alike.

Thank you for the opportunity of testifying before you today.

APRIL 4 HEARING—PUBLIC LAW 480 AND EXPORT ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, U.S. SENATOR FROM NEBRASKA

Mr. Chairman, I am pleased that the Committee is having this hearing on ways to increase agricultural exports and make improvements in overseas food donation programs. This hearing will guide the Committee in its consideration of the 1985 farm bill provisions that relate to export programs.

AGRICULTURAL EXPORT SALES MUST INCREASE

It is important that we enact legislation that will enhance United States agricultural export opportunities and broaden the scope of United States food donations abroad.

Farmers, agricultural exporters, and those who depend on a prosperous agricultural economy for their jobs face a very serious problem—the decline in United States agricultural export sales.

In the fiscal year 1984, for the fifth consecutive year, the volume of U.S. agricultural exports declined. While the value of agricultural exports increased 9 percent, to $38 billion, this amount is still nearly $6 billion below the fiscal year 1981 peak of $43.8 billion.

Contributing to this reduced volume of shipments has been the continued strength of the U.S. dollar, slow economic recovery in countries that are our traditional customers, and increased—and sometimes unfair—competition from other agricultural exporters.

Increasing the availability of credit to purchase United States agricultural products can be an important countermeasure to the negative influences on export sales. One way to achieve greater export sales is to greatly expand the amount of credit guarantees available under the GSM-102 program.

Under the GSM-102 program, the Commodity Credit Corporation guarantees loans for 98 percent of the port value of a commodity, plus 8 percent per year accrued interest, for a maximum of 3 years from the date of export. Interest rates are set by the bank that handles the export financing. Exports to nations that have most-favored-nation status are eligible. No Federal outlays are incurred under the program unless claims are paid by CCC to private banks that do not receive scheduled payments from foreign purchasers participating in the program.

The President's fiscal year 1986 budget proposes that a loan origination fee be charged for the GSM—102 program. This proposal would effectively increase the rate of interest charged our export customers and further disadvantage our exporters. I was pleased to note that the Senate Budget Committee did not accept this proposal and I will oppose any effort to include it in the budget resolution.

INCREASING FOOD DONATIONS

Two programs are operated to make available surplus agricultural commodities for overseas distribution. One is the Food for Peace program, often called P.L. 480, and the other is known as section 416 authority.

Last year, the Food for Peace program celebrated its 30th anniversary. In 30 years, almost 655 million pounds of farm products, with an estimated value of over $33 billion, have been shipped to about 1.8 billion needy people in more than 100 countries.

Until recently, authority for food donations under section 416 was limited to surplus dairy products owned by the Commodity Credit Corporation. Last year, Congress broadened the section 416 authority to make available for overseas donation CCC-owned surplus wheat acquired through price support operations.

Senator Melcher has expressed his view, a view shared by many Senators, that the section 416 authorities should be further broadened to include all commodities that are in surplus.

The cost of the commodities and the other expenditures for sections 416 disposals abroad are in addition to, and not a substitute for, the cost of Public Law 480 programs.

At a time when the United States has surpluses of wholesome food products, every effort should be made to eliminate the famine in Africa and other parts of the world.

Mr. Chairman, I look forward to reviewing the testimony of today's witnesses.

Statement of Hon. Mitch McConnell, a U.S. Senator From Kentucky

Mr. Chairman: When Secretary Block testified before this Committee, I said at that time that our ability to export our agricultural commodities competitively had to be the cornerstone of any new Farm Bill. After hearing testimony over the last few weeks, Mr. Chairman, I am even more convinced of it.

It is obvious to anybody who has listened to these proceedings that the strength of the U.S. dollar has greatly eroded our position in the foreign market. This committee doesn't have much control over budgetary matters, but we are in a position to strengthen our hand as exporters of agricultural commodities. The current blended credit program has been very successful and must be expanded; we must provide for an intermediate credit program of 3-7 years; and, finally, we must fight "fire with fire" by implementing an "export PIK". This approach to exports will reduce surplus CCC stocks, while at the same time giving United States farmers some much needed leverage against our competitors. Several factors, including weather patterns and world-wide economic changes occurring as a result of the sudden upward surge in oil prices, created a climate for the United States to become the world's supplier of agricultural products and our farmers prospered. But other factors, including a world-wide recession, huge foreign debt and embargoes, have attacked a U.S. farmer who was unprepared to cope with factors which were half-a-world away, yet disrupted his markets. Our nation's farmers are one of America's most valuable resources and it's up to us in the Congress to give our farmers the tools they need to be competitive in foreign markets.

I've heard it said that "improved marketing" is the technology of the 80's. I hope a strong export Title in the 1985 Farm Bill is a step in that direction.

Thank you, Mr. Chairman.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I commend you for calling together this fine group of witnesses to help the Agriculture Committee explore the vital issues of Public Law 480 and agricultural exports.

My home state of Illinois is one of the leading exporters of agricultural goods in our nation. It is imperative that we protect our present export markets, as we attempt to expand them.

For this reason, I believe we should add language to the export title which would ensure contract sanctity and prevent a President from imposing agricultural embargoes without the consent of Congress.

I would appreciate any comments our witnesses might have on these provisions and I look forward to hearing their suggestions for further strengthening our export market.

Thank you, Mr. Chairman.

STATEMENT OF HON. DAN QUAYLE, A U.S. SENATOR FROM INDIANA

Thank you, Mr. Chairman and members of the Agriculture Committee. I appreciate this opportunity to voice my concerns and to make suggestions on the importance of agricultural exports and how we in Congress can help to improve the level of foreign sales of our farm products. I commend the Chairman and members of the Committee for your concern and leadership in addressing the serious problems facing our farm economy.

A great number of opinions and theories have been advanced recently regarding the nature of the serious problems facing our farmers. But I believe if you closely examine the broad body of opinions, you will note that they share a common theme: Our farm community is simply suffering from a lack of profitability. Declining asset values, lack of sufficient credit, and complaints over the fate of any particular commodity price-support programs are, of course, only symptoms of a much more important and fundamental set of problems, ones which I believe can only be effectively addressed if properly defined and then addressed in a realistic fashion.

Let me quickly review some of the many complex factors which I believe have contributed to the poor health of our farm and agri-business economy.

During the 1970's, a number of conditions worked to encourage increased investment in agricultural production capacities. Inflation and increased export sales drove commodity prices up, and provided a strong incentive for farm expansion. The skyrocketing land values which followed made land an appealing investment as a hedge against inflation. Encouraged to expand capacity in order to meet international market growth, farm owners, often on advice from lenders, extension agents, government officials and tax planners, borrowed heavily against inflated land values. While farm exports grew from $4.5 billion in the late 1960's to $43 billion in 1981, total farm indebtedness during the same period increased from $53 billion in 1970 to over $165 billion in 1980.

Then, after this period of substantial capital build-up, the rules of the game abruptly changed. Export sales suddenly fell off sharply, dropping from a high of $43.8 billion in 1981 to $34.8 billion at the end of 1983. What caused this dramatic reversal? Several factors contributed to the dramatic and damaging turnabout.

The 1980 Russian grain embargo increased commodity surpluses, caused prices to plummet and festered over-zealous support for the inflexible 1981 farm programs. The embargo cast the United States as an unreliable supplier and encouraged other nations to enter the world market aggressively as commodity suppliers. Hence, we now compete with additional suppliers in the world market.

But the embargo was only a part of the problem. Several other factors played an equally significant role as well. At the same time, the world was gripped by a far-reaching recession, compounded by a sharp increase in foreign debt, especially among the increasingly important middle-tier and lower income developing nations.

Meanwhile, the value of the American dollar began to rebound as the world looked for a "safe haven" for investment. This, in turn, caused the relative price of our products to increase. This vicious circle was accompanied by increasingly aggressive trade practices by other countries. Many, such as members of the European Economic Community and Japan, further expanded the use of harmful trade barriers and export subsidies.

Suddenly, after a decade of rapid investment of capital in the U.S. food producing machinery, the avenues for disposal of our production were sharply restricted. Many of our producers were capitalized for a market that no longer existed. As a result, confidence in the health of the farm economy began to fall and asset values tumbled with it.

Regretably, U.S. farm policies also contributed to the decline in U.S. food export sales. For example, while the 1981 Farm Bill extablished minimum price support levels, USDA figures show that U.S. wheat exports dropped 20 percent from 48.8 million tons in the 1981 crop year to 38.9 million tons in 1983, while exports by our competitors rose 18 percent from 54.5 million tons to 64.1 million tons. While many other factors are to blame as well, we appear to be holding ourselves out of the world market to some extent by keeping our commodity prices out of line with prevailing world prices.

Foreign sales, of the magnitude we have enjoyed over the last five or ten years, translate directly into income for every farmer and almost every state. In fact, we have come to rely on this level of exports, and without such I believe we can continue to expect commodity price and farm income stress.

Take my state of Indiana for example. Purdue University estimates that in 1982 Indiana farmers sold $4.2 billion worth of crops and livestock. It is estimated that one-third of 1982 sales were made in overseas markets, at a value of over $1.5 billion dollars. Indiana's farm economy is very dependent on these sales as are the economies of most states. What's more, agricultural exports are one of the few remaining strong sectors of our dismal trade balance sheet. With the trade deficit expected to reach record levels yet again this year, Congress and the farm community should be working closely together to assure that the $19 billion net contribution to the trade balance made by agriculture last year is not jeopardized.

What can we in Congress do? I believe we must be aggressive in working to strengthen both the balance sheets of our farmers and our foreign trade ledgers. I suggest we follow a three-tier approach to accomplish this goal.

First, we must forestall excessive Federal spending, reduce our massive deficit and thereby help to bring down our historically high real interest rates. I agree with Secretary Block's argument, that the best farm program we could give farmers this year would be a substantial reduction in the Federal budget deficit. By working to reduce interest rates, we would apply downward pressure on the strength of the dollar, thereby easing debt problems on the farm and increasing sales opportunities overseas.

I am pleased to report that the Senate Budget Committee, of which I am a member, was able to set the tone for such budgetary constraint when it recently voted to reduce federal spending by $297 billion over three years without the need for a tax increase.

Second, we must create flexible, market-oriented commodity support programs. I don't believe I am the only one who thinks that a continuation of the current programs is a continuation of faulty and wasteful ones. While we've spent a lot of money over the last four years on farm programs, we have little in the way of a healthy farm economy to show for it. I would add that the Chairman is to be commended for his leadership in proposing a revised farm bill which would be a giant first step in taking us toward the market orientation we need.

Finally, we must develop a firm response to unfair trade practices, and take steps to enhance the effectiveness of our nation's trading efforts. The now well-known recent court ruling concerning Cargo Preference applications was not a good example. To address unfair trade practices, and to promote increased farm exports, I introduced on the first day of the 99th Congress, the "Agricultural Trade Enhancement Act of 1985." Senator Boschwitz was an original cosponsor, and joining me in early sponsorship of the measure are Senators Hollings, Kasten, and Pressler.

I would now like to outline the major components and objectives of the bill.

The emphasis of the legislation is divided among three areas, all designed to bolster the sale of agricultural products abroad.

The first section of the bill calls for the establishment of an interdepartmental agricultural trade committee, jointly chaired by the U.S. Secretary of Agriculture and the U.S. Trade Representative, and comprised of representatives chosen by the President from various departments and agencies with ties to world trade.

This committee would be charged with two tasks. First, it would catalogue, on a commodity by commodity basis, unfair trade practices that adversely affect United States farm exports. And second, the committee would recommend how best to combat such harmful practices, using all available channels. The committee would be required to make its recommendations within 6 months, although I would hope to have action even earlier than that.

Upon receipt of the Agricultural Trade Committee's report and recommendations, the President would be responsible for acting on them to remove unfair barriers to our exports. The remedies he could resort to include fuller application of allowable duties and fees, as well as more extensive and creative use of credit options.

The second part of my bill would add to the existing array of USDA credit programs. It would amend Section 4 of the Food and Peace Act of 1966 to make available an intermediate-term guaranteed or direct credit program to developing nations that are no longer dependent upon direct donations or concessional sales, yet are unable to meet the terms of more conventional commercial loans. Unlike the existing blended credit programs, which provide interest-rate relief and have payback periods of three years or less, this new provision would provide for interest rates at or near market levels, while extending the payback period to from three to ten years.

The Agricultural Trade Enhancement Act of 1985 would authorize a minimum of $500 million of credit per year for each of the next four years to be administered by the Commodity Credit Corporation. I believe that the level of authorization attached to this measure should be carefully considered so as to adequately accomplish the task at hand without unduly increasing Federal expenditures. I would add that savings achieved through adjustments in the loan and target price programs should more than offset the costs of the new credit program.

The final section of the bill, S. 171, would add to contract sanctity language already adopted by Congress over the last few years. My bill would prohibit, under any circumstance other than war, the use of a trade embargo which included farm commodities for more than 60 days without Congressional approval.

If enacted, the Agricultural Trade Enhancement Act will provide additional tools with which to expand agricultural export markets, attack unfair trade barriers, and protect crucial foreign sales of farm products from damaging trade embargoes.

Mr. Chairman, I understand that your proposal for this year's farm bill includes provisions very similar to those of the Agricultural Trade Enhancement Act. I want to commend you for your efforts along these lines, and I look forward to working with you and members of this Committee to see that these proposals are incorporated in the 1985 farm bill.

And, I might add, that I believe timely action on this front is crucial. The seriousness of the farm problem requires a swift and effective response on our part. My hope is that we in the Congress can work together to implement the program changes needed to enhance our export sales and restore strength to the balance checks of American farmers.

Thank you.

STATEMENT OF KENNETH L. BADER, CHAIRMAN, NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

It is a great honor for me to appear before you today in behalf of the Members of the National Commission on Agricultural Trade and Export Policy to participate in your deliberations on the trade and export title of the 1985 Farm Bill. U.S. agriculture's stake in trade and exports is as great today as it has ever been in our Nation's history. The policy adopted by this Committee will have a profound affect upon the future opportunities which exist for agriculture in the markets of the world. The Members of your Committee are embarked on a great task which, I am confident, will resound to your credit and to the benefit of all Americans engaged in the farm and food system.

The National Commission on Agricultural Trade and Export Policy was established by law in August, 1984, to report to the President and the Congress its views and recommendations about policy to improve the trade and export picture facing U.S. agriculture. The Commission counts among its 35 members four Members of your Committee—your respected Chairman, Senator Helms, and Senators Dole, Lugar and Zorinsky—as well as other Members of the House and Senate. I have been selected to serve as Chairman of the Commission by its Members. Mr. Robert Delano, President of the American Farm Bureau Federation, serves as Vice Chairman.

The National Commission was intended by law to operate as an entity independent of the Executive branch and its membership includes individuals representing virtually every sector of the farm and food system of the United States. It is a testament to the importance placed on trade and exports by the Congress and this Committee that the Commission was established. I regard the establishment of the Commission as a great opportunity to put the talent that exists in the Congress and the private sector to work on trade and export problems facing U.S. agriculture.

Only one week ago, the Commission agreed on report language to be contained in its first provisional report to the President and Congress, some of which is contained herein. I am taking this opportunity to briefly summarize for you the views and recommendations that will be contained in this first Report which I expect to be available in its entirety to all Members of your Committee within a matter of days.

Since the Commission has been in existence for only a few months, its first Report should be viewed as an immediate effort to summarize and comment upon the many factors that have contributed to the recent decline in U.S agriculture exports and to other trade problems facing U.S. agriculture. The current recommendations of the Commission do not represent the closing of the book on issues of this nature, but rather the opening of a dialogue between Congress, farmers and agribusiness on matters of utmost importance to the future of agriculture.

I believe that the Report will be a useful tool to Congress and this Committee in crafting the trade and export title of the 1985 Farm Act, and I encourage you to study it and to let us know your opinions of the Commission's work to date. The Commission will be exploring export and trade issues in greater detail from now until its expiration in August, 1986. It will be submitting a final Report to the President and Congress on July 1, 1986. I look forward to working with this Committee to ensure that the final Report of the Commission—and any interim views it may transmit to Congress—are in keeping with our joint commitment to serve the long-term interests of U.S agriculture.

The Commission has summarized the leading problems facing U.S. agricultural exports and trade as follows:

1. the high value of the dollar;
2. inadequate formulation of U.S. agricultural trade policy;
3. the need for more aggressive export expansion programs and activities;
4. the need for expanded food aid assistance to developing countries;
5. the need to re-establish the U.S. reputation as a reliable supplier of agricultural products;
6. the damaging impact of cargo preference;
7. the need for a long-term farm program with sufficient flexibility to allow for adjustment to changing world economic conditions which provides a reasonably stable and predictable atmosphere for planning purposes.

The Commission has not attempted to rank these issues in any particular order. In many cases, such factors are heavily interrelated and linked. The Commission believes that all the issues it has identified deserve the attention of Congress and the President. It defers to Congress as to how the priorities identified in the Report can be translated into legislative remedy.

The Commission's findings and recommendations are as follows:

VALUE OF THE DOLLAR

The recent appreciation of the value of the U.S. dollar in relation to other major currencies is seriously undermining the competitiveness of U.S. agriculture in domestic and world markets. The Commission finds that the rise in the value of the dollar far outweighs many of the other factors involved in the current downturn in U.S. agricultural exports. It believes that agricultural interests are underrepresented in councils of government responsible for dictating fiscal and monetary policies. It recommends that Congress and the President give greater weight to agricultural export and U.S. trade interests in the formulation of fiscal and monetary policy, particularly if such policy results in an appreciation in the value of the dollar.

More direct action to counter the dollar's rise may be necessary if current trends continue. The Commission welcomes your views on proposals designed to diminish the damage done to agriculture by a strong dollar.

INADEQUATE FORMULATION OF U.S. AGRICULTURAL TRADE POLICY

The U.S. agricultural trade policy process suffers from a lack of uniform objective among the many government agencies involved in policy formulation. The Commission believes that a unified national policy and commitment to agricultural exports is needed if the goal of maintaining U.S. competitiveness is to be achieved.

The Commission recommends legislation be contained in the 1985 Farm Bill that:

(1) identifies and establishes a single national policy and priority for agricultural trade and exports, with appropriate responsibility for coordinating such policy vested in a single authority, subject to intensive oversight by Congress;

(2) such policy should include a commitment by the U.S. to (i) competitiveness, (ii) reliability of supply, (iii) assurance of quality and (iv) the principle of fair trade. However, it should also be the policy of the U.S. to respond aggressively to counter unfair trade practices, using export restitution and retaliatory use of U.S. import restrictions where necessary to defend U.S. interests;

(3) it should be general policy of the U.S. Government to hold agricultural trade and trade policy free from political and foreign policy influences, except under wartime conditions;

(4) Congress should mandate that the appropriate authority of government implement an improved system to explicitly measure and respond to unfair trade practices. All agencies of government should be required to file agricultural trade impact statements on policies and programs they administer, prior to any future actions by such agencies.

THE NEED FOR MORE AGGRESSIVE EXPORT EXPANSION ACTIVITIES

Unfair trade practices employed by foreign governments annually cost U.S. agriculture and the national economy billions of dollars. The Commission believes that an aggressive policy to counter such practices is needed at this time. The U.S. government should continue to negotiate a general reduction in trade barriers. However, a policy of "unilateral disarmament" in trade matters is totally ill-advised.

The Commission recommends that:

(1) Congress should reauthorize the provision of the 1981 Reconciliation Act which mandates the use of no less than $175 million annually for export expansion and to meet unfair competition. Export PIK or bonus export programs should be authorized for use as necessary on a case-by-case basis.

(2) U.S. export and import policy should be designed and used to reward nations cooperating in efforts to lower trade barriers and to take action against nations which use predatory or unfair trade practices.

CCC Export Credit programs must be maintained. Such programs are especially important to financially stressed Third World countries.

The Commission recommends that:

(3) GSM-5 direct credit be used;

(4) the Export Credit Revolving Fund be reauthorized and funded;

(5) GSM-102 guaranteed export be provided in an amount no less than $7 billion in FY 1986, $2 billion more than the amount contained in the Administration's FY 1986 budget request;

(6) No less than $100 million in guaranteed loan authority be used to fund the GSM-301 intermediate credit program, which provides longer-term financing of agricultural exports for market development purposes;

New proposals that threaten to overturn the benefits of export expansion activities should be avoided:

(7) The 1985 Farm Act should disallow increasing the origination fee on CCC credit above current levels, such as has been recommended by the Administration.

(8) Congress should make clear its intention to continue the Coooperator Foreign Market Development program of the FAS, the future of which is put in doubt by language contained in the Administration's draft 1985 Farm Bill.

FOOD AID ASSISTANCE SHOULD BE EXPANDED

Food aid programs play a central role in U.S. efforts to eliminate world hunger, promote foreign market development and foster economic growth in developing countries. Despite these advantages, the percentage of total U.S. government foreign economic assistance resources dedicated to food aid has declined from 33% to 16% since 1972. The Commission recommends restoring this balance in favor of food aid. It recommends:

(1) Congress approve legislation indicating it to be the policy of the U.S. government to provide foreign economic assistance to foreign nations in the form of "food first." As an interim goal, Congress should call upon the Administration to restore the proportion of food aid in total foreign economic assistance to 1/3 of such resources.

(2) In the event that Congress does not provide funding for food aid programs as indicated above, such increases should be provided through direct appropriations.

New or expanded programs are needed to provide greater food aid assistance to needy countries as well as to increase market development opportunities for U.S. commodities and products. The Commission recommends:

(1) new legislation to establish a separate title under PL 480 to permit sales of commodities for foreign currencies to support private-sector investment in developing countries. $500 million should be earmarked for this purpose;

(2) expansion of Section 416 authority as proposed in numerous "Food for Progress" initiatives currently under review by Congress

USDA should have greater authority over food aid programs to ensure that they are effectively used to promote market opportunities for United States farm products. Legislation should be enacted to designate responsibility affecting PL 480 and Section 416 programs to the Secretary of Agriculture.

THE UNITED STATES MUST REESTABLISH ITS REPUTATION AS A RELIABLE SUPPLIER OF AGRICULTURAL PRODUCTS

Trade restrictions imposed by the United States Government in the past decade have seriously damaged the reputation of the United States as a reliable supplier of agricultural commodities and products. The Commission believes there is no justification for embargoes imposed on agricultural exports except in time of war. The Commission supports retaining all existing authority contained in law on the subject of embargo protection and contract sanctity and recommends:

Legislation be contained in the 1985 Farm Act that would prohibit the use of export embargoes on agricultural commodities and products except in time of war, as declared by the President and the Congress.

CARGO PREFERENCE DAMAGES EFFORTS TO EXPAND EXPORTS

Commission strongly opposes current cargo preference regulations as they relate to shipments under P.L. 480 and believes clarification is necessary to prevent the extension of cargo preference to other programs designed to expand agricultural exports. The Commission recommends:

(1) Legislation be enacted immediately to exempt all agricultural exports and export programs from existing cargo preference requirements.

(2) Congress direct the Director of the Office of Management and Budget (OMB) to reflect the costs of subsidy payments deemed necessary to support the maritime industry in an appropriate function of the budget of the Federal government other than function 150 or function 350. Appropriations to carry out assistance to the Maritime Industry should be provided by Congress directly to the Maritime Administration.

NEED FOR A LONG-TERM FARM PROGRAM

The Commission recommends:

Congress enact a 1985 Farm Act that embodies five principles:

(1) a long-term policy with sufficient flexibility to allow for adjustment to changing world economic conditions, but which provides for a reasonably stable and predictable atmosphere for planning purposes;

(2) a commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets;

(3) a commitment to provide the opportunity of profitability to U.S. agricultural producers to maintain the competitiveness of the U.S. farm and food system;

(4) a commitment to preserve and protect our natural resources;

(5) a commitment to continue strong support for agricultural research and education.

The recommendations referred to in this testimony are reflected in greater detail in the attached Executive Summary of the Commission's First Report. As indicated earlier, the complete text of the First Report will be available shortly.

The problems facing U.S. agriculture in domestic and world markets merit the immediate attention of Congress and the Administration. U.S. exports of farm products have declined by 18% since 1981, at a loss of $36 billion to U.S. agriculture and the general economy. The damage caused by declining exports has not only been felt by farmers, but by everyone engaged in some segment of the total U.S. farm and food system. The importance of agriculture to the general economy cries out for a remedy to this serious problem. The Commission encourages Congress to address the issues raised in its First Report as it deliberates on legislation to be contained in the 1985 Act, and offers its assurance of cooperation with Congress and this Committee in developing recommendations for progress towards a better export and trade future for U.S. agriculture.

Thank you.

EXECUTIVE SUMMARY

The Commission provisionally finds the principal causes for the recent decline in U.S. agricultural exports to be as follows, with Commission recommendations as indicated (no priority ranking of the issues is intended by the order of presentation in this report):

1. The value of the dollar

The recent appreciation of the value of the U.S. dollar in relation to other major currencies is seriously undermining the competitiveness of U.S. agriculture in domestic and world markets. The Commission finds that the increase in the value of the dollar far outweighs many of the other factors involved in the current downturn in U.S. agricultural exports. Although the Commission is as yet unprepared to make specific recommendations of a programmatic nature to counter the impact of the dollar's rise on U.S. agriculture, the Commission believes that agricultural interests are under-represented in councils of government responsible for dictating fiscal and monetary policies of the United States. The Commission recommends:

That Congress and the President give greater weight to agricultural export interests in the formulation of fiscal and monetary policy, particularly if such policy directly results in an appreciation of the value of the dollar. The Commission will report at a later date its views in regard to specific proposals to balance the impact of the dollar's rise.

2. Inadequate formulation of U.S. agricultural trade policy

The U.S. agricultural trade policy process suffers from a lack of uniform objective among the many U.S. government agencies involved in policy formulation. The Commission believes that a unified national policy and commitment to agricultural exports is needed if the goal of maintaining U.S. competitiveness is to be achieved. The Commmission recommends that legislation be included in the 1985 Farm Bill that:

a) identifies and establishes a national policy and priority for agricultural exports, with appropriate responsibility for coordinating such policy lodged in a single authority, subject to intensive oversight by Congress;

b) stresses the commitment of the United States to maintaining (i) competitiveness, (ii) reliability of supply, (iii) an assurance of quality of product, and (iv) the principle of fair trade;

c) establishes it to be the policy of the United States to directly counter unfair trade practices by every appropriate means, including the use of export restitution and retaliatory use of U.S. import restrictions, to protect and/or expand toward a goal of equitable market share for U.S. products;

d) requires the responsible authority to implement an improved system to explicitly measure and respond to unfair foreign trade practices. All other agencies of government should be required to report to Congress the impact on agricultural trade and exports of policies and programs they administer, prior to any action by such agencies;

e) establishes it to be the policy of the United States Government to hold agricultural trade and trade policy free of the influence of political and foreign policy concerns, except as demanded in time of war as declared by the President and the Congress.

3. Export expansion requires aggressive countervailing action to protect markets, adequate credit to maintain markets and greater priority for foreign market development

Unfair trade practices employed by foreign governments annually cost U.S. agriculture and the national economy billions of dollars. The Commission believes that aggressive policy to counter such practices is necessary at this time. The United States Government should continue to negotiate a general reduction in trade barriers and other obstacles to fair trade. However, the Commission believes a policy of "unilateral disarmament" in trade matters totally ill-advised. The Commission recommends:

(a) Congress continue authority in the 1985 Farm Act for GSM-5 direct export credits in an amount not less than $175 million to facilitate export development and blended credit programs to meet unfair competition on a case-by-case basis. Funding for the program was contained in the 1981 Reconciliation Act and will lapse on October 1, 1985 unless reauthorized.

(b) The 1985 Farm Act should encourage the Secretary of Agriculture to use all existing authority to provide GSM-5 direct credit in excess of the amounts recommended above, which the Commission believes to be the minimum amount necessary at the present time. The Commission supports reauthorization and funding of the export credit revolving fund.

(c) The 1985 Farm Act should direct the Secretary of Agriculture to use export-PIK programs to counter unfair trade practices.

(d) In more extreme cases, variable import restrictions and, preferably, adjustments in U.S. export restitution policy may be required to reward nations cooperating in efforts to lower trade barriers and to take action against nations which continue to employ predatory or unfair trade practices.

Export credit programs of the Commodity Credit Corporation are currently vital to maintenance of U.S. export markets. Failure to adequately fund and administer these programs will result in a further deterioration in U.S. agricultural export performance and will have a serious impact on financially stressed Third World countries. The Commission believes that the President's Fiscal Year 1986 request for CCC export credit will be insufficient. The Commission recommends:

(e) Congress mandate that no less than $7 billion in loan authority be allocated for the GSM-102 guaranteed export credit program in Fiscal Year 1986.

The Commission strongly objects to the proposal contained in the President's Fiscal Year 1986 budget request that would raise the origination fee on GSM-102 loans to five percent and recommends:

(f) Legislation be contained in the 1985 Farm Act that would limit the average of such origination fees to no more than one-third of one percent.

The long-term potential of U.S. agriculture depends upon a continued strong commitment by the United States Government to foreign market development. The Commission believes that the market development objective of many U.S. government export programs, including P.L. 480, has been undercut in recent years. The Commission strongly supports the objective of the GSM-301 intermediate credit program, which has not been funded in recent years. The Commission recommends:

(g) Legislation be contained in the 1985 Farm Act that would direct the Secretary of Agriculture to use no less than $100 million in guaranteed export loan authority to fund the GSM-301 intermediate credit program, which provides loans for infrastructural development on a 3 to 10 year basis.

The Commission is greatly concerned by language contained in the Administration's proposed 1985 Farm Bill that appears to place in doubt the future of the cooperator foreign market development program of the Foreign Agricultural Service (FAS) of the Department of Agriculture. The Commission strongly supports the program and recommends:

(h) Legislation be contained in the 1985 Farm Act to authorize continuation of the cooperator foreign market development program.

4. Food aid programs should represent a higher percentage of total U.S. foreign economic assistance and should be better targeted to foreign market development

Food aid programs of the United States Government play a central role in United States efforts to eliminate world hunger, promote foreign market development and foster economic growth in developing countries. The Commission believes that a greater percentage of total foreign economic assistance should be offered in the form of food aid. The Commission favors making additional resources available to food aid programs through a shift of funding, rather than an increase in funding for total economic assistance. A restoration of food aid's share of total economic assistance resources to levels achieved in the early 1970's would accomplish the goal of better using our Nation's agricultural abundance without additional cost to the U.S. Treasury. The Commission recommends:

(a) Congress approve legislation indicating it to be the policy of the United States to provide foreign economic assistance to foreign nations in the form of "food first" except as otherwise determined by the United States Government. As a specific interim goal, Congress should call upon the Administration to restore the proportion of food aid in total foreign economic assistance from the current level of 16% to one-third of such resources, the same level of food aid as existed in the period 1968 to 1972.

(b) In the event that Congress does not approve funding for food aid programs as recommended above, the Commission urges Congress to provide such increases through direct appropriations.

The Commission believes that the foreign market development objective of the P.L. 480 program has suffered in recent years as a result of the use of the program to achieve other goals of less direct benefit to American agriculture. The Commission recommends:

(c) Legislation that would designate responsibility for decision-making affecting the P.L. 480 program to the Secretary of Agriculture.

(d) Legislation that would establish a new title under P.L. 480 to permit sales of commodities for foreign currencies to support private-sector investment in developing countries.

(e) Legislation that would permit an expansion of Section 416 of the Agricultural Act of 1949 to allow U.S. government-owned commodities to be used to support market-oriented economic development in developing countries.

5. The United States must re-establish its reputation as a reliable supplier of agricultural products

Trade restrictions imposed by the United States Government in the past decade have seriously damaged the reputation of the United States as a reliable supplier of agricultural commodities and products. The Commission believes there is no justification for embargoes imposed on agricultural exports except in time of war. The Commission supports retaining all existing authority contained in law on the subject of embargo protection and contract sanctity and recommends:

Legislation be contained in the 1985 Farm Act that would prohibit the use of export embargoes on agricultural commodities and products except in time of war, as declared by the President and the Congress.

6. Cargo preference damages efforts to expand exports

Costs of the cargo preference subsidy to the U.S. maritime industry are currently borne by the Department of Agriculture and the agricultural sector. The Commission believes that cargo preference has failed to maintain a strong maritime industry. The Commission strongly opposes current cargo preference regulations as they relate to shipments under P.L. 480 and believes clarification is necessary to prevent the extension of cargo preference to other programs designed to expand agricultural exports. The Commission recommends:

(a) Legislation be enacted immediately to exempt all agricultural exports and export programs from existing cargo preference requirements.

(b) Congress direct the Director of the Office of Management and Budget (OMB) to reflect the costs of subsidy payments deemed necessary to support the maritime industry in the appropriate function of the budget of the Federal government, other than function 150 or function 350. Appropriations to carry out assistance to the maritime industry should be provided by Congress directly to the Maritime Administration.

7. U.S. domestic policies need to provide opportunity for profitability to agriculture

Federal farm support and export programs are linked by a common commitment to profitability of the U.S. agricultural sector. The Commission believes that domestic and export programs can play complementary roles in this respect, but only if a long term policy for agriculture is developed and adhered to. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor in keeping U.S. agriculture competitive in world markets. U.S. agriculture must maintain its ability to market its commodities and products at competitive prices. However, American farmers need the opportunity to make a profit if U.S. agriculture is to remain competitive.

Although the Commission has no specific recommendations for changes in domestic farm programs at this time, it recommends:

(a) Congress enact a 1985 Farm Act that embodies five principles:

(i) a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions but which provides for a reasonably stable and predictable atmosphere for planning purposes;

(ii) a commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets;

(iii) a commitment to provide the opportunity of profitability to U.S. agricultural producers to maintain the competitiveness of the U.S. farm and food system;

(iv) a commitment to preserve and protect our natural resources;

(v) a commitment to continue strong support for agricultural research and education.

Statement of Robbins W. Fischer, President, Soypro International, Inc., and International Business Associates, Inc.

I am Robbins W. Fischer of Cedar Falls, Iowa, President of Soypro International, Inc. and International Business Associates, Inc.

First, Mr. Chairman, I want to thank you for your kind invitation to testify at this hearing on the provisions of Public Law 480.

As you may know, some of us in Iowa had a hand in recommending agricultural programs that addressed the world's need for American farm products 35 years ago. Those efforts, and some of those men, contributed to the adoption of Public Law 480 in 1954. In my opinion, Mr. Chairman, that single act of the U.S. Congress has done more to rid the world of one of the four horses of the Apocalypse—the scourge of famine—than has any other act of any government in the history of the world.

Now we confront both a resurgence of some of the old problems, and the threat of some new ones that call for the same kind of leadership we demonstrated then.

First: Chronic famine and malnutrition have surged up again in major parts of the world. The locations are different. The human suffering is the same. Only this time it is as close as our living rooms—in living color.

Second: In the midst of a hungry world, large surpluses of U.S. farm products clog our storage facilities, over-hang our commodity markets, and lay heavily on the backs of our producers, many of whom really are in serious financial trouble.

Third: Under our present or foreseeable federal agricultural programs, those surpluses also put a heavy demand on the Federal Treasury.

Fourth: The great chasm that splits the world between areas of surplus and areas of need is made up of conditions that stem from our human institutions including the high value of the dollar, artificial prices in many countries, governmental restrictions to commerce in some countries and our own accumulation of red tape.

Fifth: A new problem is the drift of free nations including many of our best trading partners—into merchantilism: a host of protectionist devices combined with predatory export marketing which is aimed to disrupt the normal channel of world commerce. We see that trend as a big step, in many countries, toward national socialism.

As you know, Mr. Chairman, our Committee of the President's Task Force spent 18 months studying these problems, including studying in detail the programs and the history of P.L. 480. We had excellent staff support from several departments, especially USDA and US/AID. But the Committee members themselves also worked long and hard on these subjects.

Parenthetically, you might want to consider incorporating that section of the Task Force Report on Food Assistance, and the Briefing Paper on P.L. 480 into the proceedings of these hearings.

In addition to the problems mentioned above, and in the face of the gigantic needs which they represent, we found that P.L. 480 programs have been chipped away, year after year, until they are far less adequate in every way than they were under the Administrations of Dwight Eisenhower and John F. Kennedy. (Exhibit 1).

We found that a major and most effective part of the original Act had been removed, and urgently needs to be restored. Here I refer to the authorization to accept soft currencies for U.S. agricultural products delivered to aid-recipient countries under P.L. 480, and to use those currencies to further the interests of both the U.S. and the recipient countries.

Very frankly, in my own estimation, that authority was removed by Congress because it had been badly administered in some major countries . . . . a condition which could have been rectified short of Congressional surgery.

We looked very carefully at the cost of P.L. 480 allocations of U.S. farm products to recipient countries. We asked our foremost financial analysts: "What is the net cost to the United States Treasury of farm products we actually give away, as food relief, with no payment whatsoever either now or in the future?"

To our astonishment, on a 3-year projection, we found that the costs for our gifts to needy countries, in the context of our overall agricultural programs, are less than nothing. At the end of three years, there is actually a net gain to the United States government (Exhibit 2, attached). Where present or future payment is arranged for, in any currency, the net benefit is substantial.

We also found that P.L. 480 allocations have become the captive of a vast network of inter-departmental red tape that reduces the program to one-third or even one-fourth of its proper effectiveness (Exhibit 3).

To be candid, because P.L. 480 was seen as an effective and popular program from the beginning, every Department and Agency with the least claim to its functions wanted a piece of the action. In my opinion, it was a classic case of predatory turf grabbing by the administrative agencies.

As a result, Mr. Chairman, we had a gaggle of bureaucrats who couldn't tell wheat from oats if their lives depended on it—unless it were printed on the label—weighing in heavily on who should get what, for what use and under what terms under P.L. 480.

As a result, Mr. Chairman, when our Task Force as a whole felt the need to recomend to the President that he increase emergency food relief for Africa in 1983, in the midst of our deliberations, we could not recommend that P.L. 480 allocations be used. Half the continent could have starved to death before even he could have got emergency food relief delivered through the very law originally intended to meet such emergencies.

We also found that, in many instances, both the food and the local currencies generated by the food had been delivered into the wrong hands. In a word: they were too often turned over to local governments which were already highly centralized and which used those food resources to increase their centralization.

Sometimes they were deliberately used to depress local prices for farm products, driving their own farmers into greater poverty and to reduced production.

Sometimes the funds were used to finance government owned industries—to the detriment of local private enterprise.

All of these problems, we found, were produced by inept or misguided administrative practices which were compounded by having too many fingers in the administrative pie.

Let me put in a footnote at this point. Some will tell you that food supplied by P.L. 480 soft currency sales will always drive local prices down below world market levels. That is not true unless the local market is simply flooded with such commodities. In virtually all cases, depressed farm prices were the product of government price controls which were employed to gain support from urban populations.

We found that relief food supplies can be provided at no cost to the very needy, especially children, while increased supplies can be put into market channels for local currencies without depressing prices below world market levels.

What we found, Mr. Chairman, as we studied these matters over and over again, was that the United States has an unparalleled opportunity to improve the living conditions of great numbers of people, at home and abroad, while improving the conditions for private enterprise and increasing human freedom and individual dignity—all at the same time.

How can this be?

First, by supplying agricultural products which are badly needed in many countries as food relief for the most deprived members of society, and as added supplies for local currencies.

Second, by using the local currencies to provide reasonably priced financing to large numbers of small farmers, businessmen and entrepreneurs.

In country after country, village after village, we saw men and women who could be sucessful if they could borrow just a little money at a reasonable rates to give them a leg up. And we saw some agencies from other countries such as a British development bank, doing just that—and doing it successfully for medium sized enterprises.

We therefore recommended that a much larger share of our Foreign Assistance budget be channelled into P.L. 480 by doubling its resources now. I We recommended that the original authority of Title 1 to sell U.S. agricultural products for foreign currencies be restored.

We recommended that those foreign currencies be kept in the hands of the U.S. government rather than being turned over to the governments of the recipient countries.

We recommended that those funds be used, as in the past, to finance to foreign currency needs of the U.S. Government wherever possible and to increase the funding for our farm commodity groups in their foreign market development programs. These programs have proved to be highly cost effective both for the U.S. economy and the U.S. government.

And then, Mr. Chairman, we recommended that those local currencies be made available, through qualified financial institutions, to provide loans to small farmers and businessmen of developing countries. We are confidant it can be done, and that it will do more to stimulate local activity, local production, and local prosperity than all the macro- projects or all the other types of human relief programs in the world. Soundly administered, with a large coefficient of common sense, such a program can generate the tide that raises all boats in one country after another.

We also recommended, in the strongest possible terms, that the program be administered by the U.S. Department of Agriculture. Our Foreign Agricultural Service understands local needs, local markets, and local business conditions, and local governments quite well enough to handle both the P.L. 480 allocations and the utilization of the funds. They also understand farm commodities: their production, transportation, storage, marketing and utilization. They have developed the best reports in the world on local agricultural production and markets. They can handle the job.

Our Task Force sincerely believes that such a program will cast a bold light of human freedom and individual dignity into the dark corners where the disciples of centralization preach their gospel of domination and control.

Mr. Chairman, we have the resources, we have the capabilities and we have the opportunity to leave a great heritage of humanity, and wisdom and individual liberty to our posterity. I trust this Committee and this Congress will put us well on the path of that objective.

Thank you again for the opportunity to meet with you today.

(Exhibit 1)

FIGURE 7:
P.L. 480 Shipments 1955-1983

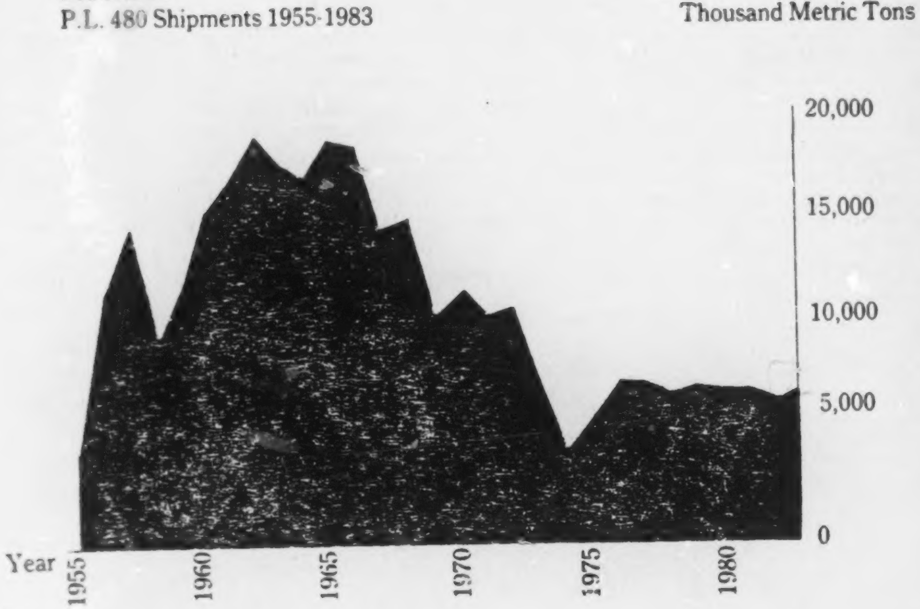
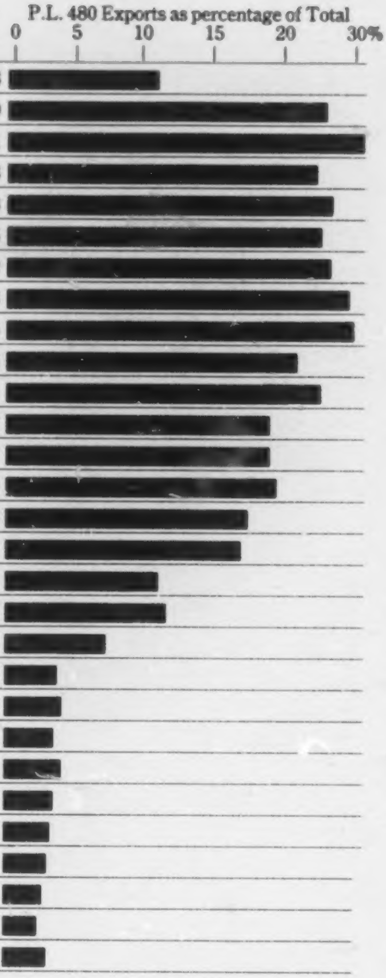


TABLE 2:
P.L. 480 Exports from 1955-1983

	(billions of U.S. dollars)		
	Total Agricultural Exports	Total P.L. 480 Exports	1,000's Metric Tons
1955	$3.1	$0.4	3,418
1956	3.5	1.0	10,070
1957	4.7	1.5	14,271
1958	4.0	1.0	9,228
1959	3.7	1.0	11,488
1960	4.5	1.1	14,325
1961	4.9	1.3	16,342
1962	5.1	1.5	18,778
1963	5.1	1.5	17,366
1964	6.1	1.4	16,776
1965	6.1	1.6	18,411
1966	6.7	1.3	18,157
1967	6.8	1.3	13,957
1968	6.3	1.3	14,579
1969	5.7	1.0	9,996
1970	6.7	1.1	10,936
1971	7.8	1.0	9,834
1972	8.0	1.1	9,905
1973	12.9	1.0	7,373
1974	21.3	0.9	3,314
1975	21.6	1.1	4,827
1976	22.1	0.9	6,652
1977	24.0	1.1	6,434
1978	27.3	1.1	6,094
1979	32.0	1.2	6,284
1980	40.5	1.3	6,067
1981	43.8	1.3	5,893
1982	39.1	1.1	5,696
1983	34.8	1.2	6,192



OURCE:
.S. Department of
griculture.

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(Exhibit 2)

TABLE 3: Benefits Achieved from an Increase in P.L. 480

(in $ millions)	FY 84[e]	FY 85[f]	FY 86	FY 87	FY 88	FY 89	Total
Cost of Increase in P.L. 480							
Total Cost[a]	1,000	1,339	1,306	1,272	1,238	1,203	7,358
Less recoverable[b]	665	884	862	840	817	794	4,862
Net Cost[c]	335	455	444	432	421	409	2,496
Title I OFD	85	120	118	114	111	108	656
Title II	250	335	326	318	310	301	1,840
Savings in price support program[d]							
Frozen targets	218	382	541	866	1,120	982	4,109
Escalated targets	218	382	666	1,305	1,200	1,422	5,193
Net Benefit (Cost)							
Nonrecoverable P.L. 480 less frozen targets	(117)	(73)	97	434	699	573	1,613
Nonrecoverable P.L. 480 less escalated targets	(117)	(73)	222	873	779	1,013	2,697

SOURCE:
U.S. Department of Agriculture, Office of Budget and Program Analysis, 1984.

NOTES:

[a] Additional funds required to increase P.L. 480 by $1 billion in FY 1984 and to bring total funding level to $3 billion in each of next five years.

[b] Cost of Title I commodities will be repaid over 40 years.

[c] Cost of Title II commodities and shipping plus Title I Ocean Freight Differential. The Title I OFD is the additional cost of using U.S. bottoms in compliance with U.S. cargo preference requirements, which are not repaid by the recipient country.

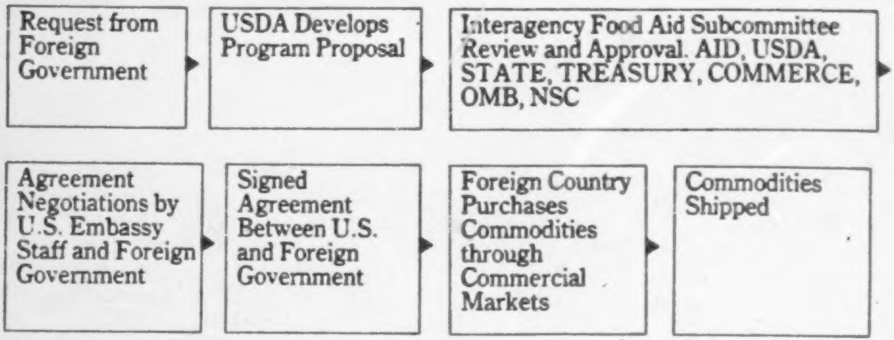
[d] Projections were made assuming that target prices were frozen at current levels and assuming target prices continued to escalate. Savings in price support programs result from the additional U.S. exports under P.L. 480 that reduce the cost of loans, deficiency payments, storage, and other expenses associated with the programs.

[e] A $1 billion increase in P.L. 480 in FY 1984 was the maximum possible at the time the analysis was performed.

[f] Based on the planned FY 1985 program level of approximately six million tons at the time of the analysis. Does not include subsequent increases raising FY 1985 shipments to an estimated eight million tons.

(Exhibit 3)

FIGURE D.3:
P.L. 480—Title I/III Program Flowchart


Request from Foreign Government
USDA Develops Program Proposal
Interagency Food Aid Subcommittee Review and Approval. AID, USDA, STATE, TREASURY, COMMERCE, OMB, NSC
Agreement Negotiations by U.S. Embassy Staff and Foreign Government
Signed Agreement Between U.S. and Foreign Government
Foreign Country Purchases Commodities through Commercial Markets
Commodities Shipped

Agency Objectives:

USDA
Market Development
Surplus Disposal

AID
Economic Development
Humanitarian

STATE
Foreign Policy

TREASURY
Financial Review

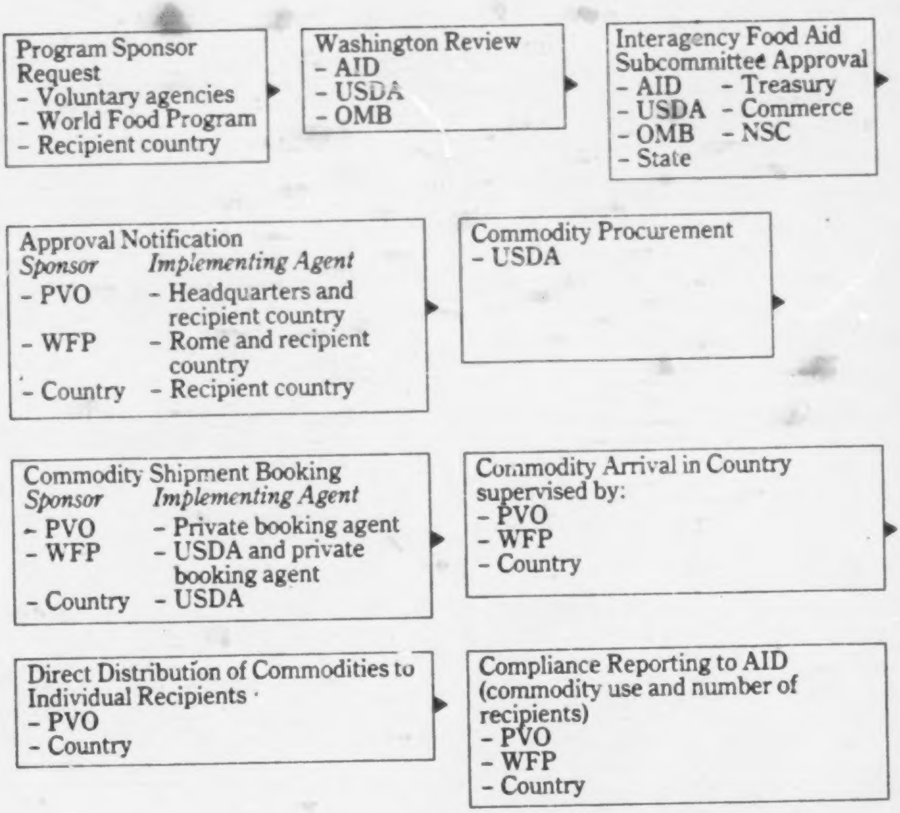
OMB
Budgetary Overview

COMMERCE
Trade

NSC
National Security

SOURCE
USDA 1984

FIGURE D.4.
Title II Program Development and Implementation


Program Sponsor Request
- Voluntary agencies
- World Food Program
- Recipient country
Washington Review
- AID
- USDA
- OMB
Interagency Food Aid Subcommittee Approval
- AID - Treasury
- USDA - Commerce
- OMB - NSC
- State
Approval Notification
Sponsor Implementing Agent
- PVO - Headquarters and recipient country
- WFP - Rome and recipient country
- Country - Recipient country
Commodity Procurement
- USDA
Commodity Shipment Booking
Sponsor Implementing Agent
- PVO - Private booking agent
- WFP - USDA and private booking agent
- Country - USDA
Commodity Arrival in Country supervised by:
- PVO
- WFP
- Country
Direct Distribution of Commodities to Individual Recipients
- PVO
- Country
Compliance Reporting to AID (commodity use and number of recipients)
- PVO
- WFP
- Country

Agency Responsibility:	Primary program responsibility rests with AID. Operational responsibilities for Title II activities are carried out by three types of program sponsors: private voluntary agencies (PVOs); intergovernmental organizations, primarily the UN/FAO World Food Program (WFP); and recipient governments (Country).

STATEMENT OF RICH PENNELL, SENIOR VICE PRESIDENT, HARVEST STATES COOPERATIVES, AND CHAIRMAN, TRADE POLICY SUBCOMMITTEE, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, I am Rich Pennell, Senior Vice President of Harvest States Cooperatives and Chairman of the Trade Policy Subcommittee of the National Council of Farmer Cooperatives. I appreciate this opportunity to testify.

Harvest States Cooperatives is a grain marketing, exporting, and processing cooperative serving the northern tier states from the Great Lakes to the Pacific Ocean. Harvest States represents about 200,000 farmer-owners with consolidated sales of some $3.5 billion.

We are members of the National Council of Farmer Cooperatives, which is an association of cooperative businesses owned and controlled by farmers. It represents about 90% of the nearly 6,000 local farmer cooperatives in the nation, with a combined membership of almost two million farmers.

You are to be commended for scheduling today's hearing on agricultural exports, P.L. 480, and the trade title of the 1985 farm bill.

On January 24, 1985 delegates to the annual meetings of the National Council of Farmer Cooperatives adopted a trade policy resolution which states:

"Agricultural Trade Policy—The National Council of Farmer Cooperatives is a strong supporter of fair trade. We recognize the importance of expanding U.S. agricultural exports, both for the producer and the economy as a whole. Agricultural exports not only allow the producer to gain a better return for his product but also benefit the U.S. economy by improving our balance of payments and providing jobs.

"Despite the important role which agricultural exports have played over the last decade, the U.S. government has failed to develop a long-term agricultural trade policy aimed at creating an international climate where U.S. exporters can compete on a fair basis. The National Council urges the development of a long range agricultural trade policy . . ."

Today, more than ever, it is clear that U.S. government policy is not working to expand agricultural exports—in fact, the exporting sector faces a drastic decline.

U.S. TRADE PICTURE DETERIORATING RAPIDLY

The value of U.S. agricultural exports has fallen from $44 billion in 1981 to a projected $34.5 billion in 1985, a decline of $9.5 billion or 22 percent. Actual export volume has fallen from 164 million metric tons in 1980 to a projected 142.5 million tons in 1985—the fifth straight year of decline.

The deterioration of the U.S. export picture is accelerating. On December 3, USDA estimated agricultural exports this year to be $36.5 billion, which is $1.5 billion below the previous year. On February 20, the estimate was lowered to $35.5 billion. On March 12, it was lowered again to $34.5 billion, a drop of $2 billion in 15 weeks. Private estimates suggest that the real export figure is even lower.

Beyond that, there are specific examples where the U.S. is losing ground in grain sales.

Of course, the most well known case was when Cargill generated a great deal of attention by proposing to ship Argentine wheat into the U.S. through ports in the Gulf of Mexico. Although the sale was cancelled, the numbers were valid. Argentine wheat ruled from 4 to 8 percent below American values despite ocean freight costs and various import charges.

Earlier this year, Australia made its first feed wheat sale to Mexico. Argentina has made its first corn sale to Mexico in almost 10 years and is selling substantial quantities of wheat to Peru, which was an exclusive U.S. market for years.

In the space of less than two years, the U.S. has lost more than half of the Korean feed grain market to the competition. In 1982/83, the U.S. supplied all of Korea's feed grains. Today, Australia is landing feed wheat in Korea at roughly $20 per ton below the price of U.S. corn, and we will be lucky to hold on to 50 percent of this key feed grain market. China shipped nearly 700,000 tons of corn to Korea in 1984 and will likely continue.

A cargo of Chinese corn was reportedly bound for California. Ocean freight from China and the U.S. import duty added about $14 to the Chinese F.O.B. price of $122 to $125 per ton. Meanwhile, the U.S. support price for corn is $132 per ton, F.O.B. equivalent. The Chinese corn was presumably diverted to Mexico, but remember the numbers worked! The diversion decision was based on domestic political reasons rather than international economic ones.

Rice markets have similarly lost ground. In Nigeria, U.S. exports fell from 402,000 tons in 1981 to only 124,000 tons in 1983 and Thai exports jumped from 211,000 tons to 568,000 tons. U.S. rice exports to the European Community fell from 341,000 tons in 1981 to only 231,000 tons in 1983, while Thai exports increased from 76,000 tons to nearly 285,000 tons in 1984.

Outstanding export sales for 1984-85 (sales reported to USDA but not yet shipped) are down dramatically from last year, as the attached table reveals. Compared to this point in the previous marketing year, wheat and product sales are down 44 percent, corn sales are down 26 percent, soybeans down 37 percent, cake and meal down 31 percent, and cotton down 20 percent.

WHY ARE EXPORTS FALLING?

Perhaps the most important emerging influence which has caused exports to fall is a relatively new factor with causes external to agriculture: the over-valued dollar. The tremendous rise in dollar value has increased the price of U.S. products to foreign customers, even if the U.S. price goes down.

In 1984, the U.S. dollar set successive record highs against weaker European monies such as the British pound, French franc, and Italian lira. The dollar also reached an 11-year peak against the German mark and a 7-year peak against the Swiss franc.

Dr. Ed Schuh, Director of Agriculture and Rural Development for the World Bank, stated in a paper earlier this year: "An over-valued exchange rate constitutes an implicit export tax for export sectors and an implicit import subsidy for import sectors." His statement is true, and the consequences to U.S. agriculture are evident.

Macro-economic factors are slapping an export tax onto U.S. farmers and exporters. If the government is going to saddle farmers with these macro-economic factors, then the government has a responsibility to help farmers overcome their adverse effects.

At the same time, world markets for U.S. exports are distorted by the unfair trade practices of other nations. Tariff and non-tariff trade barriers, variable import levies, and foreign export subsidies all distort world markets.

As stated earlier, NCFC strongly supports fair trade. Unfortunately, trade has not been fair. Our farmers are willing to compete on a "level playing field", but policies of foreign goverments have tilted that playing field in favor of our competitors.

These factors, along with increased world crop production and a sluggish world economy, have led to our current slack export picture.

Last week the Minneapolis Star and Tribune carried an article (attached to my statement) which is headlined "Growers Claim Crisis in Grain Exports." Mr. Chairman, the crisis is real and its high time we did something about it.

ACTION IS NEEDED NOW

American farmers cannot afford to wait for a new farm bill to be enacted before getting relief. If we follow the pattern of 1981, the new farm bill will not be signed into law until late December, eight months away. Crop program provisions of the new law will take effect with the 1986 crop, which won't be harvested for a year and a half. I repeat: American agriculture cannot afford to wait 18 months for new farm legislation to modify programs or rectify our export problems.

Administrative action is needed now to boost exports. We propose the following:

(1) Utilization of already authorized export credit guarantees to promote increased sales;

(2) Expanded use of P.L. 480 programs;

(3) Use of CCC stocks as discretionary export incentives; and

(4) Elevation of agriculture to highest priority with regard to trade negotiations.

REMOVE THE CARGO PREFERENCE BURDEN

While U.S. agriculture has been struggling to maintain its competitive edge, the cargo preference requirements have rendered some of our vital marketing tools useless. On February 26, USDA suspended the blended credit program following a ruling by the U.S. District Court in Washington that the cargo preference requirements would apply to blended credit.

We believe the court interpretation went far beyond the intent of Congress, and now it is up to Congress to set it straight.

We urge you to enact legislation to repeal cargo preference where it applies to export programs beyond the traditional P.L. 480, foreign aid programs. Again, action is needed now and we cannot wait for a new farm bill.

PRO-EXPORT 1985 FARM BILL

In 1985, new farm legislation should be based on policy objectives which reflect the changing global economies of agriculture today. In addition to the traditional farm policy goals providing (1) support for farmers, (2) adequate supplies of food and fiber, and (3) orderly marketing of farm products, we need to adda fourth: (4) assure that U.S. agriculture is competitive in world markets.

With these policy objectives in mind, several specific program revisions should be adopted:

(1) Domestic programs to allow competitiveness: There is no substitute for being price-competitive in work markets, but the U.S. should achieve that position without pulling the rug out from under farmers. Domestic farm programs should be complementary to our export programs, rather than working at cross-purposes to them. NCFC and others have endorsed an idea which can protect farmers' income while allowing U.S. products to be price-competitive, and we urge the Congress to adopt it.

Specifically, USDA could offer farmers non-recourse "marketing loans" on their commodities which would be repaid based on the loan rate or the market price for the commodity, whichever is less. This would allow farmers the assurance of the original value of the loan, but avoid market interference by allowing loans to be repaid based on market prices for the commodity. Commodities redeemed at market price levels can be resold by farmers at competitive world price levels, rather than held in government storage at taxpayer expense.

(2) A strong trade title: Establish an aggressive Trade Title in the 1985 farm bill to counter unfair trade practices, enhance world demand, and compensate for the effects of the over-valued dollar. (Attached is a summary of NCFC'S trade proposals, adopted on January 21, 1985.) Specifically, the legislation should provide for a broad spectrum of export credit programs tailored to fit the diverse needs of the recipient countries, designed to move those nations from "aid" to "trade" in their relationship with the U.S. New programs to be included would be a continuous line of credit guarantees and an intermediate credit guarantee program. An export bonus program using CCC stocks should be authorized and implemented as needed. The U.S. must respond firmly to unfair foreign trade practices.

(3) Meet Humanitarian Needs: The P.L. 480 "Food for Peace" program should be revised and extended. This highly sucessful program reached it thirtieth year last summer, with a ceremony marking the anniversary of the signing of Public Law 480. The National Council played a lead role in commemorating the event, and the track record of 30 years shows that it deserves to be continued. The emphasis of the P.L. 480 program should be on market development, multi-year programming, and the development of infrastructure in recipient countries to allow greater purchases of U.S. agricultural commodities.

SUMMARY

Mr. Chairman, today it is not as popular to say that "exports are the lifeblood of American agriculture" as it was some years ago. However, the ultimate proof of that statement may be found in the fact that exports have fallen and farmers have fallen on hard times. Without strong overseas demand for their products, the lifeblood of American agriculture is being drained away.

As a result, immediate action is need to boost exports and counter the effects of the strong dollar and unfair foreign trade practices.

The 1985 farm bill must include features such as the marketing loan, to allow the U.S. to be price-competitive while protecting farmers. It should also contain an aggressive trade title, to get American agriculture on the move again.

We look forward to working with you on these initiatives in 1985.

WEEKLY EXPORT PERFORMANCE INDICATORS BASED ON EXPORT SALES REPORTING DATA AS OF MARCH 21, 1985

[1,000 metric tons, except cotton]

Commodity/marketing year	Wheat and products	Corn	Soybeans	Soybean cake and meal	(1,000 running bales) cotton
Number of weeks	42	25	29	25	33
Outstanding sales:					
5 year average	6,455	12,463	4,038	1,113	2,355

WEEKLY EXPORT PERFORMANCE INDICATORS BASED ON EXPORT SALES REPORTING DATA AS OF MARCH 21, 1985—Continued

[1,000 metric tons, except cotton]

Commodity/marketing year	Wheat and products	Corn	Soybeans	Soybean cake and meal	(1,000 running bales) cotton
1982/83	6,712	11,101,	4,138	914	2,044
1983/84	6,207	11,300	3,535	797	2,480
1984/85	3,461	8,343	2,220	553	1,987
Change from previous year (percent)	−44	−26	−37	−31	−20

[Reprint from the Minneapolis Star and Tribune, Mar. 24, 1985]

GROWERS CLAIM CRISIS IN GRAIN EXPORTS

(By George Anthan, Des Moines Register)

WASHINGTON D.C.—U.S grain exports, vital to propping up the reeling farm economy and for years one of the few bright spots in the nation's foreign trade balance, are dropping off and could slide dramatically within a few months, many experts say.

Even more disturbing, according to industry officials, relatively cheap foreign grain could begin moving into the United States itself, displacing wheat, corn and soybeans produced by Midwestern farmers, many of whom already are in financial trouble.

"I think the situation is at crisis proportions, and the speed by which the U.S. is losing overseas market shares is alarming," said Michael Hall, the Washington representative of the National Corn Growers Association. "It is a crisis that has blown up on us, and not sufficient attention has been given to it."

Winston Wilson, president of U.S. Wheat Associates, a market development group agreed, "We're in a crisis. I don't see any bright sides anywhere."

The situation is a result of a complex set of economic factors, including the high value of the U.S. dollar, the operation of various farm programs and the willingness of foreign governments to subsidize their exports in order to take markets away from the United States. Although the Reagan administration has talked tough about matching the European Common Market's export subsidies, a U.S. Department of Agriculture (USDA) expert said, "It's clear now that the Common Market's treasury is bigger than our will power."

Dave Rogers, an assistant vice president of Twin Cities-based Cargill Inc., listed the cancellation of sale after sale of U.S. grain.

"From Jan. 1 to mid-February actual contracts or firm plans to purchase U.S. wheat totaling nearly 2 million tons have been canceled and directly replaced by exports from Argentina, the European Community (Common Market), Australia and Canada."

Several weeks ago, the grain industry was shaken by reports that a ship loaded with 30,000 tons of Chinese corn was set to unload at a U.S. port in the Pacific Northwest. The report indicated it had been determined thst it would be cheaper to import the Chinese corn than to buy corn from Nebraska and Iowa and move it to the Pacific Northwest by train.

Hall and other industry officials said the ship was diverted to a Mexican port because the shipper, whom they did not name feared the possibility of adverse publicity over bringing foreign grain into the United States.

Cargill caused a major flap in January when it announced it had considered importing Argentine wheat because the foreign grain could be landed at at Gulf of-Mexico for less than it would cost to buy comparable American grain there. Cargill rescinded the decision when farm-state members of Congress and farm group officials complained loudly.

"If you run the numbers on it, it's more economical" to buy foreign grain now for use near an ocean port, said Hall. He said Argentine corn could be imported into a Gulf of Mexico port at 15 to 30 cents a bushel less than the cost of Midwestern corn, despite ocean freight at about 38 cents a bushel and a 20 percent Argentine export tax. In the past year the dollar's rise has meant a 30 percent increase in the price foreign buyers must pay for U.S. corn, even as the domestic value of the commodity has fallen sharply.

Leo Mayer, associate administrator of the USDA's Foreign Agriculture Service, referring to rising concerns among farm and grain industry groups over U.S. competitiveness, said, "I do think we want to be very careful about blowing these isolated examples out of proportion. There's a lot of pressure right now to show how uncompetitive we really are."

But he added, "That's not to say we don't have a problem. We do, and it's intensifying. For the life of me I really don't know why, but it seems that over the last couple of months the situation has really worsened."

Mayer noted that the USDA has lowered its estimate of U.S. agriculture exports three times in recent weeks. Overseas sales in 1985 are projected at $34.5 billion, down $1 billion from the February estimate and 9 percent below last year's $38 billion. Exports in 1985 will be down 20 percent from levels of 1981. Even more worrisome, export volume is declining, too. The USDA estimates shipment of 142.5 million tons this year, compared with a high of 164 million tons in 1980. And this comes at a time when many U.S. competitors have increased their volume, officials said.

As farm exports drop, food imports have risen. As a result, the nation's farm trade surplus this year is estimated at $16 billion, down from $26.5 billion in 1981.

Mayer said, "If you study the (export) sales reporting system carefully, what it shows is that the actual sales to this point have been holding up fairly well, but future commitments have dropped off a lot and there's no good explanation except that we aren't competitive with a lot of others."

Hall said trade experts expect the USDA to lower its export estimate once again. "If this situation keeps up, the USDA's projections are "Alice in Wonderland," he said.

President Reagan and Agriculture Secretary John Block recently have emphasized that the Soviet Union has bought a record amount of U.S. grain during the marketing year that began Oct. 1. Up to now the Soviets have bought 15.6 million tons of U.S. grain, but Soviet buyers have canceled some recent purchases and have made it clear to industry officials that U.S. prices are significantly higher than those of other suppliers.

"We are being picked apart on the price issue," said the Corn Growers' Hall. "On the corn side, the price disparity between our product at the Gulf of Mexico and foreign product is from 15 cents to 45 cents a bushel against us. On wheat, the disparity between our wheat and our main competitors if from 65 cents to $1 a bushel. That's a very, very large discount."

Cargill's Rogers listed the following recent cancellations of U.S. overseas sales:

250,000 tons of U.S. soft red winter wheat to China, replaced by Argentina and the Common Market.

500,000 tons of hard red winter wheat to Soviet Union, replaced by Agrentina.

325,000 tons of soft red winter and hard red winter wheat to Turkey, replaced by Australia, Argentina and the Common Market.

150,000 tons of wheat to Brazil, replaced by Argentina and the Common Market.

150,000 tons of soft red winter and white wheat to Morocco, replaced by Common Market.

The list goes on and includes hundreds of thousands of tons of U.S. corn sales lost in the Far East to China and Australia.

Peru, for example, had been importing about 1 million tons of grain a year, 70 percent of it from the United States. But Peru recently signed a deal with Argentina for 600,000 tons a year at well below the U.S. price. And Argentina offered a three-year credit deal at 10 percent interest.

This is occurring, said Wilson of U.S. Wheat Associates at a time when the Reagan administration is pushing legislation to cut farm subsidies and depend on a market-oriented program.

"They're (administration) predicting a wheat price of $2.85 in 1990 under their program," Wilson said. "We're at $3.30 today, and the guys can't make it. Why the hell should they be interested in more exports at that price? Our biggest problem is the value of the dollar."

AGRICULTURAL TRADE POLICY

Adopted by the National Council of Farmer Cooperatives Agriculture and Trade Policy Committee January 21, 1985

1. Encourage macro-economic policies which reduce interest rates, stimulate economic growth, and bring the over-valued dollar into balance with the currencies of foreign customers.

2. Modify domestic farm policies in 1985 by providing farmers marketing loans or other means to allow U.S. farm products to be competitive in world markets.

3. Establish an aggressive Trade Title in the 1985 Farm Bill. It should include the following:

A. A spectrum of credit programs (see attached) tailored to fit the diverse needs of other nations, including:

1. Continuous Commercial Credit line for export guarantees—six month repayment

2. Short-Term Credit—6 months to 3 year repayment

3. Blended Credit—combines interest free direct credit with market rate credit guarantees

4. Intermediate Credit Guarantees—3-10 year repayment

5. P.L. 480—long-term market development and humanitarian aid

B. Reauthorize the P.L. 480 "Food for Peace" Program, with revisions:

1. Increased authorization levels

2. Use of multi-year programming to give foreign recipients more reliable assistance

3. Inclusion of value-added products

4. Emphasize market-development

5. Use to encourage infrastructure improvement to enhance foreign countries' ability to receive U.S. products

C. Reauthorize and fund Agricultural Export Credit Revolving Fund

D. Specifically authorize an Export Payment-In-Kind program

E. Reaffirm Contract Sanctity and strengthen Embargo Protection provisions

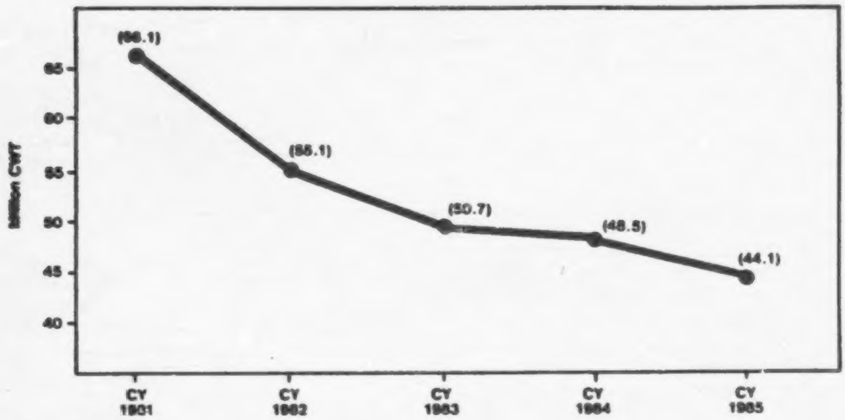
F. Require a report on other countries' unfair trade practices, and press for a firm U.S. response to them

G. Expand overseas commodity donations through expansion of Section 416 authorities to include all CCC stocks

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION

My name is J. Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA). Established in 1899, the RMA represents independent rice milling firms and farmer-owned cooperative rice mills, with facilities in Arkansas, California, Louisiana, Mississippi, Tennessee and Texas. RMA members process virtually all of the rice produced in the United States and sell significant quantities of rice directly to the export market.

Rice is an export-dependent crop. The economic survival of all segments of the United States rice industry is closely linked to the ability of marketing segments to competitively sell rice into the international market. In 1980, the United States was the world's largest rice exporter, accounting for approximately 23 percent of the international rice market. During the period 1981-85, United States global market share declined to 15 percent, while Thailand, our nearest competitor, expanded its market share from 22 percent to over 37 percent.

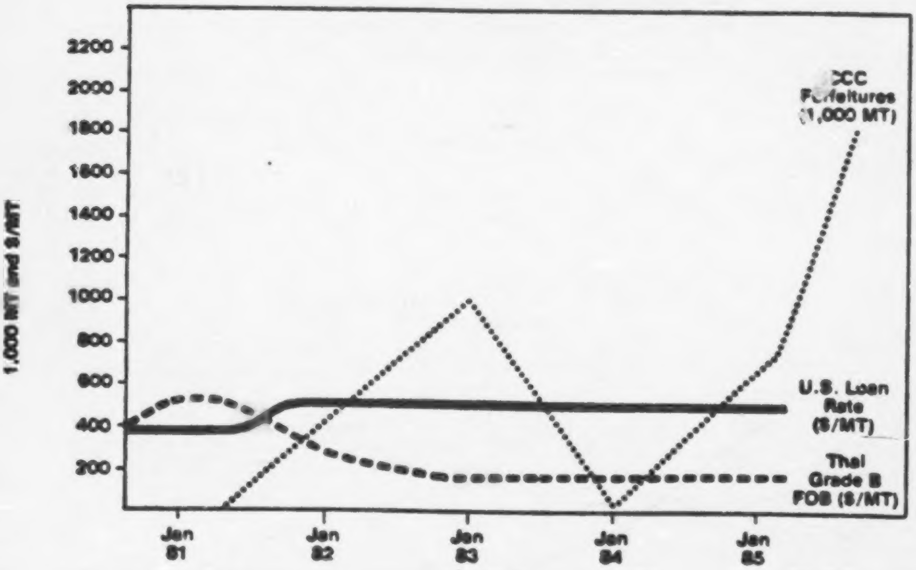


Milled Rice Export Shipments
(Source: USDA)

CY = Calendar Year

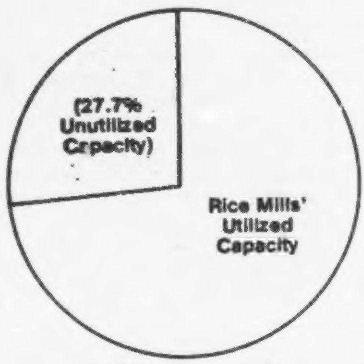
United States loss of global market share has been due to the following factors: (1) four successive good Asian rice crops; (2) high value of the dollar; (3) excessive Third World debt; (4) aggressive Thai government support for rice export policies and programs; (5) inflexibility of U.S. rice policies such as implementation of supply-reduction and stock-building programs; and (6) failure of the United States government to recognize the reality of the international marketplace by allowing competitor nations to expand market share through the use of export subsidies and other export enhancement mechanisms.

World Rice Price, U.S. Loan Rate for Rice, and CCC Forfeitures

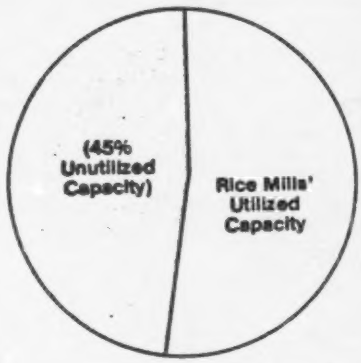


The present export price spread between Thai and U.S. rice is approximately $200.00 per metric ton. In fact, Thailand believes that it can expand market share within the next several years to about 50 percent of the total world rice market.

Presently, U.S. rice mills are operating at less than 60 percent of total capacity. Continued operation at this level will adversely impact on the economic interests of both farmers and millers, as approximately 50 percent of milling volume is accounted for by farmer-owned cooperative rice mills.



MY 1980/81



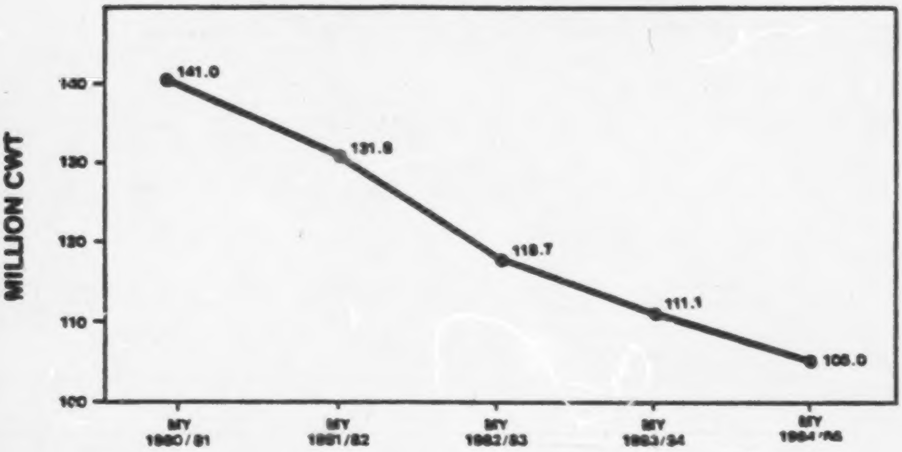
MY 1984/85

MY = Marketing Year

If current rice legislation is not made more flexible, it is expected that the United States rice industry will continue to lose export market share and contract to an area level of about 1.8 million acres out of a production base of approximately 4.2 million acres. In addition to the severe economic disruption of the industry and related service industries caused by this shrinkage, hundreds of millions of dollars invested during the past twenty years by farmers, millers and the U.S. government in export market development programs will have been wasted.

Quantities of U.S. Rough Rice Milled

(Source: The Rice Millers' Association)



MY = Marketing Year

The trade section of the Administration's proposed agriculture bill purports to expand and enhance agricultural trade. In fact, almost no change would be made in the current export program, and the bill puts no teeth in the provisions aimed at eliminating barriers to trade.

The export title simply extends the PL-480 program and continues the GSM-102 Export Credit Guarantee (short-term credit) at a level "consistent with the credit needs of importing countries." The bill would require the Commodity Credit Corporation (CCC) to take into account potential purchasers' credit-worthiness before credit is extended.

With respect to export promotion and the elimination of barriers to trade, the bill does nothing more than authorize the U.S. Trade Representative to conduct a separate study of barriers to exports of U.S. agricultural commodities, and, then, to work with the Secretary of Agriculture to "seek to eliminate" those barriers. A report is to be submitted to Congress by July 1, 1986 if these efforts are unsuccessful. The bill envisions that by 1990, a report will be submitted by the President to the Congress identifying what actions will be taken to offset trade barriers.

The Administration's bill contains nothing more than vague statements regarding export market development and calls for more studies on trade barriers, without any specific authorization of sanctions against the use of such trade barriers or the creation of a single new program to further export development.

RMA believes that government policies and programs should: (1) aggressively assist and facilitate export marketing; (2) expand profitability potential and opportunity of all industry segments; and (3) enable rice to be sold on a competitive basis.

An aggressive export policy should be established in the national interest that provides the following: (a) mandate an export-in-kind program when CCC stocks reach designated levels; (b) establish mandatory retaliatory mechanisms that will be implemented against countries which unfairly deny access to U.S. agricultural products; (c) implement a "Food for Progress" program that utilizes CCC inventories on a multi-year basis to leverage establishment of long-term economic development policies in most-seriously affected countries; (d) amend and fund the GSM-301 three- to ten-year export credit guarantee program; (e) make it a policy to tie trade and aid together in order to leverage purchase of U.S. agricultural mises of PL-480, Food for

Progress, Economic Support Funds (ESF), Commodity Import Program (CIP), GSM-5, GSM-102, and GSM-301 programs; (f) compensate for the high value of the dollar, which in reality is an export tax, by mandating an export restitution or monetary compensatory program; and (g) expand and reform PL-480.

With specific regard to PL-480, we offer the following legislative recommendations:

1. Require that 75 percent of PL-480 agreements be finalized and signed by the end of the first quarter of each fiscal year; additionally, if 75 percent of Title I agreements are not signed by December 31, the President shall inform Congress in writing as to the reasons why not.

This legislation would reflect the sense of Congress that the current process of U.S. interagency involvement in PL-480 programming be reviewed with the objective of insuring maximum effectiveness and timeliness of operations. Food aid and humanitarian concerns must no longer be held hostage to perceived developmental needs of the recipient country. Having the great majority of agreements signed early in the fiscal year would serve the interests of U.S. agriculture by allowing for orderly and timely PL-480 marketings throughout the year. It would also be in the interests of the receiving country to have most of the fiscal year available in which to purchase and ship its PL-480 commodity.

2. Allow the PL-480 recipient country to repay its Commodity Credit Corporation obligations in its own local currency, not to exceed in each U.S. fiscal year the total amount of the local currency needed by the U.S. Treasury Department to fund all U.S. government operations in the recipient country.

Under this agreement, the recipient country would be relieved of much of its burden to generate foreign exchange. It would be in the greater interest of the U.S. and its balance of payments, since U.S. government activities in that country would no longer require the expenditure of U.S. dollars.

3. Allow the recipient country to sell PL-480 commodities in its domestic market at world market price levels, and to require that only those funds generated from actual sales be deposited to the country's development account.

To continue to require the PL-480 commodity's re-sale price to be based on the U.S. export market price will prompt recipient countries to forego PL-480 purchases in favor of non-U.S. agricultural commodities which respond more certainly to their food needs since they are much less expensive at the consumer level.

4. Terminate programs under Title III of PL-480.

Title III imposes unnecessary administrative burdens on developing nations by forcing them to set up and maintain an intricate program bureaucracy. It can be argued that Title III programs have posed a disincentive to private enterprise.

With respect to "Food for Progress," RMA strongly recommends that this program be implemented as it was intended. "Food for Progress" is a flexible, totally different concept, intended to be additional to and outside of PL-480, and coördinated from within the White House in order to give it the high visibility and priority that it merits. "Food for Progress" cannot simply serve as a replacement for Title III, which has rigid bureaucratic controls that do not lend themselves to multi-year, policy-leveraging food aid commitments needed to spur the implementation of growth-oriented agricultural policies in the assisted countries.

Thank you for providing us this opportunity to testify.

STATEMENT OF MORGAN WILLIAMS, PRESIDENT OF THE COOPERATIVE LEAGUE OF THE USA

Mr. Chairman, Members of the Committee. My name is Morgan Williams, I am President of the Cooperative League of the USA. I appreciate the opportunity to appear before you today to speak on behalf of the members of the Cooperative League on the issue of PL 480 and other food aid programs.

The Cooperative League of the USA is the U.S. cooperative organization drawing its membership from all types of cooperative business. Our members include farm supply and marketing, credit unions, housing, health care, food, mutual insurance companies, rural electric and telephone cooperatives. Our diverse membership agrees on the economic and social values that are intrinsic to cooperatives—the value of local control, self-determination, and promotion of economic growth through self-help enterprises.

Mr. Chairman, other than our people, food is our nation's and our farmer's most important resource. Our goal is to convert this resouce into the means to save human lives and offer those lives a future beyond the constant threat of hunger and starvation.

The U.S. food aid program has accomplished this goal in the past and will do so in the future. The will to do so includes the will of the Congress to pass appropriate legislation.

The creators of the Food for Peace Program were true visionaries. They realized that the abundance of U.S. food could be used to do more than just feed people in times of emergencies. They envisioned using food as the tool to create market for our farm goods; meet humanitarian needs of people less fortunate than ourselves; help people to help themselves to develop their own resources and to allow the U.S. to help needy foreign governments.

These are the four objectives of Food for Peace Program: to expand international trade; to develop and expand export markets for United States agricultural commodities; to use the abundant agricultural productivity of the United States to combat hunger and malnutrition and to encourage economic development in developing countries with particular emphasis on assistance to those countries that are determined to improve their own agricultural production; and to promote in other ways the foreign policy of the United States.

The Congress is faced with important decisions on food aid. In addition to changes in PL 480, the Congress will deliberate Section 416 and the new Food for Progress Program.

The food aid programs as well as other credit programs such as GSM 102 and blended credits merged together can play a critical role in the lives of U.S. citizens as well as millions overseas.

These programs affect the U.S. farmers, the cornmillers, flour millers, rice millers, our entire dairy industry, soy bean oil processors, bag manufacturers, chemical suppliers, truckers, railroads, stevedors, ports, and steamship companies. This is the entire food chain from the U.S. farmer to hungry people overseas. While food aid may mean life or death to the people in Africa, Asia, Latin American and the near East, it may mean life or death to the livelihood of the farmer, the food processor, the railroad worker, the stevedore or the sailor.

Why can't we merge the needs of millions overseas with our needs here in the U.S.? We can! Food aid is a powerful, efficient and effective tool especially when U.S. farm prices are down and production is up. - When the dollar is high. - When foreign countries lack hard currencies. - When food crises exist overseas as they do in Africa! The President's Task Force on International on Private Enterprise stated that "The PL 480 Food for Peace Program should be at least doubled to help avert starvation and alleviate poverty, expand developing countries agricultural markets and support private sector growth". The report went on to say that certain forms of foreign assistance and some programs designed to stimulate trade are extremely cost effective. It stated that doubling of PL 480 in an increase of 6 million tons would result in a benefit-cost ratio of nearly 2:1.

In these times of budget deficits, it would seem that the Congress should view programs in their total perspective to the U.S. economy and not by a line item approach.

What should be done with regards to PL 480, Section 416 and the Food for Progress program?

PL 480 levels are extremely low when compared to the projected needs in the developing world.

Food aid requirements range from an estimated 16–18 million tons to 34 million tons annual need. The U.S. has been the leader in food aid, yet the FY 86 budget calls for only 6.9 million tons. This is far short of the levels the 60's which ranged from 16–18 million tons annually. Mr. Chairman, we therefore recommend increasing both Title I and Title II of PL 480.

In addition to increasing volume, changes need to be made in both programs.

Title I sales to foreign countries need to be more accessible to the poorest countries which lack foreign exchange. This can be accomplished by re-instituting in the law the provision to sell food to countries for their own currencies. This re-opening of local currency sales (which was in the law from 1954–1966) has three benefits. First, this will allow countries with little or no foreign exchange to enter into sales agreement with the U.S.; second, it will open desperately needed markets to U.S. farm goods in third world countries and third, it would return currency to the U.S. Treasury that can be recycled in Third World countries for market development, financial lending by and to private enterprises, provide resources to cooperatives and private voluntary agencies, finance agriculture projects, and pay U.S. government expenses.

Mr. Chairman, the Cooperative League supports the initiative in Senate 616 which will authorize the sales of PL 480 for local currencies. We are also interested in the provision to establish financial intermediaries. We would like to encourage the Committee to consider cooperatives and private voluntary organizations as both financial entities as well as loan recipients. Cooperatives and PVO's currently plan an active role in the non-governmental arena in developing countries. If it is the intent of Senate 616, to expand the role of private enterprise in developing countries, then cooperatives and PVO's can and should play a key role. In many countries, particularly in Asia, LA and Africa we have staff and contacts which will be vital in effectively administering these new agreements. Banking and finance is not new to cooperatives. We have been instrumental in establishing institutions in both the U.S. and overseas. We suggest that cooperatives and PVO's be clearly specified as a player in this legislation initiative in order to insure that the executive branch has a clear mandate to encourage our involvement when it comes time to issue operating guidelines and procedures.

We note with concern that S. 616 does not provide for any change in Title II of the PL 480 legislation. We had hoped that the food crises in Africa as well as other parts of the world would have prompted proposals for expansion of Title II, but this hearing affords me the opportunity to make several proposals. Most of my views are shared by my colleagues in the cooperative and private voluntary agency community as well as many in private enterprise that are affected by the ups and downs of the program.

I have three proposals—they have been called the 3 m's which stands for 3 musts! First is minimum tonnage. The Title II minimum tonnage is presently 1.7 million tons a year. Of this amount, 500,000 tons is reserved for emergency programs and 1.2 million tons is utilized for activities such as cooperative development, food for work programs, mother-child health centers, and school feeding programs. This donated food aid reaches over 40 million people daily in over 25 countries.

Title II levels have been straightened for several years and each year there has been a need for supplementals. Isn't it time to take a look at levels? The Congress has been generous with emergency supplementals, but supplementals are time consuming and result in delay and less effective management of resources. The hard fact is that straightlining of PL 480 Title II programs is not enough! We recommend as increase of no less than 250,000 MT annually.

Other changes in the legislation can produce more cost effective use of resources. All Title II programs should be planned and committed on a multi-year basis. This is already being done for World Food Program projects and government to government programs such as Section 206. There are even a few multi-year cooperative voluntary agency programs. All non-emergency programs should be designed and committed on a multi-year basis. All commitments would be subject to Congressional appropriations and commodity availability. The annual approval system of costs the U.S. government in staff time and excessive paper work. It is also very difficult to leverage host government and local agencies for funds if a program sponsor such as the Cooperative League, CARE, Catholic Relief Services, Adventist Development and Relief Agency or World Vision can offer a one year commitment. What business would hire staff, build warehouses, make financial commitments against a one year contract?

Another way to more effectively utilize donated food aid is to use the food as a cash resource to complement distribution or to produce more food. For lack of a better phrase we refer to monetizing food aid. This is the third must. This means making donated food aid self-financing by allowing (1) a portion to be sold to finance transport and storage costs or (2) to sell or utilize the commodity in a food production project such as dairy development projects and loans to small farmers.

This use of Title II is not new. It has been done since the inception of the program. For example, emergency situations sometimes require that food be sold through the commercial marketing system to get the food to the affected victims. This is usually the case where there are no other means to get the food to the people affected. This was done in several Africa countries this year.

In some countries, neither the government nor the private sponsor have adequate funds to transport food to the people in need. A portion of the food is then sold to finance transport.

Another form of Title II sales is to sell a portion of the food to finance tools, shovels or other implements for work programs or to buy health charts and scales for mother-child nutrition programs.

The third form of sales is to finance agriculture projects such as cooperative or small farmers loans. This is a way to help people to help themself by using the food as a resource to produce more food. A wise person once said, that if you can give a man a fish you feed him for a day, but if you teach him to fish you feed him for life. By the same token, we can give a child a glass of milk but if we teach her parents to produce more milk with their one cow and sell the excess milk to a cooperative dairy in their village, then we are providing more food to that child over a longer period of time and allowing the farmer to shape his future.

Some have been concerned that less food will get to people if sales are allowed. If sales are not allowed, some food won't be delivered at all! In other situations, the food will provide the seed capital to produce more food for the poorest recipients. We are not recommending a shift away from direct distribution program, but the addition of a way to make programs more effective.

Another issue that is a key to the impact of Title II feeding programs is the choice of the appropriate commodity to meet the nutritional needs of the recipients. We support the thrust of amendment in S. 616 which supports the use of value added, processed and protein fortified products. We would suggest that the language be strengthened to set a floor on the quantities shipped under Title II since there has been a dangerous trend away from these commodities in recent years.

On Section 416, we support initiatives to expand Section 416 to "all grains and products thereof". We also recommend that clear legislative language be enacted to clarify the sales provision of the law. We recommend that the same principals which apply to Title II be established for Section 416. We had thought that the Senator Melcher's amendments enacted last year would clarify this issue, but legal interpretation by the legislative branch have hampered implementation.

The Food for Progress proposal is very interesting and has merit. Obviously, there is tremendous need for additional food aid to Africa. There is also a need to support food policies which will more encourage farmers and increase productivity. We support the goal to promote "the implementation of private, free enterprise agriculture policies for long-term agricultural development.

As I understand the legislation, not more that 500,000 metric tons of commodity may be furnished per year for four years to countries that have made commitments to introduce or expand free enterprise elements in their agriculture economies.

The Food for Progress program should be commended for addressing such critical areas as production, pricing policies, improved marketing, availability of seeds, fertilizers and pesticides to farmers as well as access to technology.

We also note that the proposed legislation calls for the President to consider whether the country is able to use the donated commodities without disruption of the internal market of the country as well as precautions against displacement of sales of United States agriculture commodities. We think these safeguards are essential to carrying out any food aid initiatives.

We do have some questions about the programs.

Administratively, how will the Program be coordinated with PL 480 and Section 416 programs?

The legislation calls for the program to be carried out through the National Security Advisor. Would it not have been better to establish a separate Coordinator for International Food Policy in the White House?

Again, we support the concept of Food for Progress and its goal to support private, free enterprise agricultural development.

Mr. Chairman, Thank you again for the opportunity to testify before this committee. Decisions made by the Committee are critical to the future of millions overseas and as well as at home.

STATEMENT OF CHARLES L. SYKES, ASSISTANT EXECUTIVE DIRECTOR OF CARE

Mr. Chairman, we appreciate the opportunity once again to appear before the Senate Agriculture Committee to report on our stewardship of the food resources entrusted to CARE as part of our country's commitment to end world hunger and promote development as well as to share with you our views on how future food aid legislation and policy can better address the needs of an ever changing world.

The Board of Directors of CARE which includes many national cooperative, service, farm, labor, and religious organizations, including the NRECA, the Grange, the National Farmers Union, the Credit Union National Association, the Cooperative League of the USA, the Salvation Army, the Adventist, the Baptist, the National Council of Negro Women, the General Federation of Women's Clubs, and the AFL-CIO asked that I convey to you, Mr. Chairman, and the Members of the Committee, our appreciation for the Senate reaching early compromise with the House on the Africa Famine Relief and Rehabilitation Bill. This supplemental emergency Bill sends a number of clear messages to the world: that America cares and that America continues to lead in responding to the tragic drought in Africa.

Mr. Chairman, as the Committee re-examines our long-term food aid policy, there are three factors which we ask the Committee to consider in its deliberations. A coalition of private non-profit organizations, made up of the Cooperative League, the Adventist Relief and Development Agency, World Vision, Catholic Relief Services, and CARE refer to these three factors as the "3 Ms" or the three "musts". The first of the Ms has budgetary implications: it's the need for a graduated increase in the Title II minimum tonnage which currently stands at 1.7 million tons and has been straightlined for the past four years. You will recall, Mr. Chairman, that in 1974, the World Food Council established an annual global food aid target of 10 million tons, with the U.S. providing about half that target. That target of 10 million tons was largely based on the projected cereals gap (1975-80) in the poorest developing countries. Your committee weighed in heavily in supporting this objective and, by doing so, U.S. leadership not only pulled up the level of pledges from other donor countries but also brought in new pledges from countries which had never been involved before as donors. Mr. Chairman, as you and the Members of this Committee review the cereals gap projected by USDA, FAO, and IFPRI for the next several years in the poorest countries of the world, you will note that under the most optimistic scenario, the developing countries will need a minimum of 15 million tons annually in food aid, the worst case scenario being about 30 million tons. The leadership clearly remains with the United States in responding to this gap, particularly with reference to establishing higher levels and a more food secure world. To help deal with this gap The President's Task Force on International Private Enterprise has recommended that "the P.L. 480 Food for Peace Program should be at least doubled to help avert starvation and alleviate poverty, expand developing country agricultural markets, and support private sector growth."

The second M factor which we ask the Committee to consider in its deliberations is multi-year commodity commitment. We believe it is important that Title II agreements negotiated by voluntary organizations and cooperatives (like the government to government and World Food Program Agreements) contain multi-year commitments to make commodities available. Multi-year agreements would allow us to plan staffing and other resource requirements more effectively, and to operate more efficiently. Additionally, it would allow us to secure stable commitments from our counterparts in health, education, rural works, and cooperative projects.

The third M we ask the Committee to consider is monetization or the authority to sell and barter Title II commodities. Operating organizations have long recognized that to be allowed flexibility to sell commodities for local currencies in a non-market disruptive fashion overseas would greatly strengthen their programs. Title II sales and barter have led to cooperative and dairy development projects in India, Indonesia, and Jamaica; have allowed CRS and ADRA to move emergency good in Ghana; and have permitted CARE to provide landless women laborers in a Bangladesh Road Maintenance Program with a stable wage—to give but some examples. Similarly, such activities as nutrition education, innoculation, primary health care, de-worming children, and providing potable water are frequently critical to the success of Title II projects. We have demonstrated the effectiveness of such programs. We request the Committee to consider explicit language which would permit PVOs and Cooperatives to sell and barter Title II commodities to better accomplish both developmental and humanitarian objectives as set forth in the legislation.

We would also like to express our appreciation to Senator Melcher for his successful efforts in revitalizing Section 416 (Agricultural Act of 1949) in a manner well harmonized and compatible with the objectives of P.L. 480. As you know, Mr. Chairman, the expanded Section 416 authority mandates the use of dairy and wheat products for distribution to needy people. Distributing these commodities in poor countries to the needy entails substantial costs which could be offset by giving PVOs discretionary authority to sell or barter a portion of the commodities. The money and services generated by this barter and sales provision could be used to defray inland transportation, processing, and nutrition education costs.

Additionally, regarding those Section 416 proposals which clearly raise the income level of the rural poor and in turn create demand for agricultural commodities, we would recommend that explicit language be included for 100% sales. The commodities available under Section 416 could also serve as a bridging mechanism for those countries recently graduated from the Title II Program, do not qualify for Title I because of income criteria, and are faced with serious debt servicing problems, but have well-established health and nutrition intervention programs which reach the poor. Unfortunately, we have not been able to convince the USDA that these represent legitimate uses of 416 commodities.

Based on CARE's field experience over the past 39 years in managing food aid programs, these recommendations would represent a positive restatement of our current food aid policy based on the probable short-term availability of 416 commodities. Commercial markets are not reaching the poorest countries or the poorest people because they simply do not have the currency to express demand.

Inclusion of all these recommendations in your deliberations will go a long way toward meeting those objectives set forth in your introductory remarks (to S. 616) of March 7 when you said "the true test of our compassion lies not merely in the amount of emergency aid we give, but also in an ability to assist developing nations in solving the long range problems which have limited their agricultural development."

Mr. Chairman, we would like to thank you and Senator Melcher and your respective staffs for giving us an opportunity to submit our comments on S. 616 and the Food for Progress legislation. We would, for the record, suggest that the duties imposed on the President in "Food for Progress" be carried out by a Food Security Advisor in the Executive Office of the President and that the Office of the Food Security Advisor clearly reflect the sense of Congress resolution which reads as follows:

Resolved by the House of Respresentatives (the Senate concurring), That it is the sense of Congress that

(1) the United States reaffirms the right of every person in this country and throughout the world to food and a nutritionally adequate diet; and

(2) the need to combat hunger shall be a fundamental point of reference in the formulation and implementation of United States policy in all areas which bear on hunger including international trade, monetary arrangements, and foreign assistance; and

(3) in the United States, we should seek to improve food assistance programs for all those who are in need, to ensure that all eligible recipients have the opportunity to receive a nutritionally adequate diet, and to reduce unemployment and ensure a level of economic decency for everyone; and

(4) the United States should emphasize and expand its assistance for self-help development among the world's poorest people, especially in countries seriously affected by hunger and malnutrition, with particular emphasis on increasing food production and encouraging more equitable patterns of food distribution and economic growth; and such assistance, in order to be effective, should be coordinated with expanded efforts by international organizations, donor nations, and the recipient countries to provide a nutritionally adequate diet for all."

As passed by the Senate (S.Con.Res.138) September 16, 1976, by voice vote.

Mr. Chairman, we would hope that all your deliberations would be guided by S. Con. Res. 138; it provides a beacon, a vision which reaffirms the values and beliefs for which this country stands. Because of the leadership and wealth of the United States, your decisions here will impact on millions of people in villages and communities around the world and in the parliaments and international assemblies. Let it be a message which draws its strength from S. Con. Res. 138.

Thank you, Mr. Chairman. We would like to extend an invitation to you and the Members and Staff of the Committee to visit some of our projects overseas. You will find that our management and accounting system for both commodities and funds is second to none, and that these resources are monitored until used or expended. I will be happy to try to answer any questions you may have.

STATEMENT OF ROBERT SNOW, RESEARCH AND PLANNING OFFICER, OXFAM AMERICA

I am Robert Snow, Research and Planning Officer for Oxfam America, an international development and disaster relief organization based in Boston. We fund local, grass roots groups in poor countries in Asia, Africa, and Latin America. Oxfam America neither seeks nor accepts government funds nor food offered under the provisions of Public Law 480. We therefore view P.L. 480 from the outside—from our observations of its impact on the poor—rather than from the inside, as a participant in the program.

As a development agency, we are aware that the reauthorization of P.L. 480 is taking place amidst a new American consciousness. The spectre of Ethiopia and deteriorating food conditions all over Africa have reshaped U.S. public opinion regarding development assistance, especially food assistance. The American public expects and demands that development assistance—both public and private—be responsive and effective. Today to speak of relief is to be asked about recovery; to pledge food is to be asked about development.

The reauthorization of P.L. 480 raises concerns about its use in promoting equitable development. With over half a billion metric tons of food aid being poured into Africa this year alone, we need to consider whether food aid is addressing the root causes of poverty and malnutrition or whether it is only a stopgap measure—and at worst an obstacle—in the fight to end world hunger. In light of this, the appropriateness of food aid as a development tool—as a means of both increasing food production and strengthening the agricultural sector—becomes most pressing. Africa, the only continent in which per capita food production is declining, is fast becoming a test case for the effectiveness of U.S. food assistance.

P.L. 480: MOTIVATIONS AND TITLE I

Before examining Title II, which has been widely considered development-oriented food aid, let me review just two motivations behind the P.L. 480 program adversely affecting its role in development:

1. Expansion of U.S. international trade and the opening of new markets for U.S. exports: The launching point of P.L. 480 in the 1950s, increasing foreign demand for U.S. farm products is still a major priority and rationale for P.L. 480's reauthorization. From a development perspective—the desire to increase local agricultural production and promote self-reliance—this objective of P.L. 480 often proves an obstacle in that:

(a) The urban middle class are the main benefactors. A large proportion of food sold under Title I goes to the urban middle class who can afford to buy it. This cultivates a taste for U.S. agricultural products, decreasing urban demand for locally grown food, while increasing demand for imports.

(b) Food prices are kept low. Recipient governments use U.S. food aid to keep food prices low, again benefitting the urban populous. This is part of the argument against the effectiveness of food aid as a development tool in that it acts as a disincentive: farmers and the rural poor not only fail to receive food aid, but have their earnings and purchasing power undermined by its use. Local agricultural production suffers as a result.

(c) Food aid acts as a buffer against implementing programs to increase local food production. This is the second part of the disincentive argument: U.S. food aid promotes a false sense of "food security," allowing governments to put off funding programs aimed at the agricultural sector.

(d) Monies generated in-country from the sale of food aid do not necessarily benefit the people most in need. Currency generated from the sale of Title I food aid usually supplements the general budget of the recipient country. There are not adequate guidelines for the use of these funds.

Peasants suffer twice from the provision of food aid: 1) they fail to reap its benefits and in fact pay for its subsidy of food prices and 2) it often proves a disincentive for increasing local agricultural production and instituting equitable access to resources. Food aid, then, does not reach or benefit the vast majority of people in developing countries who are most affected by food insecurity—peasants, the rural poor who rely on the land and their own skills and resources for food. Instead, it benefits the privileged minority—the urban middle class, civil servants, and the military.

2. Promotion of U.S. foreign policy: A review of recipient governments shows that P.L. 480 has gone predominantly to nations either strategically important to U.S. interests or friendly to U.S. government policies. From a development perspective, this skews the effectiveness of U.S. food aid:

(a) U.S. policy interests, not in-country food needs, become the overriding concern for providing food aid. The results are that countries not within the U.S. sphere of influence or of strategic importance are often overlooked in the food aid scramble. Egypt, for example, a country of major importance to U.S. interests in the Middle East, but with little or no critical food need, receives a major proportion of U.S. food aid. At the same time, Ethiopia, perceived as an "unfriendly" nation, until recently received no Title I and very little Title II assistance, despite serious and well-documented need since at least the fall of 1982.

(b) Development cannot be imposed from without, either by private voluntary agencies or the U.S. government. For true development and self-reliant programs to be instituted, we need to be in dialogue with a spectrum of spokespersons from countries receiving aid. This is particularly true in Africa where the Lagos Plan of Action is testimony to African leaders' desire to gain food self-sufficiency. Unfortunately, food security is not always compatible with U.S. foreign interests. Mozambique, suffering from a three-year drought, did not receive substantial U.S. development assistance until it signed the Nkmoti Accord with South Africa and came into line with the Reagan administration's Constructive Engagement policy.

These two motivations—opening of new markets and promoting U.S. foreign policy—are major forces behind Title I food aid. Title I can only be considered development aid if one believes that aid to the industrial and formal sector is the key to self-sufficiency for the developing world. True development looks to vigorous peasant-based strategies which will benefit the majority of people in a developing country. Food aid is not enough. The root causes of poverty are not lack of food, but lack of access to land, productive resources, and input into the development planning process.

Oxfam America does not advocate reauthorization of P.L. 480, Title I specifically because peasants neither benefit from it nor have a voice in its use or implementation.

TITLE II: DEVELOPMENT-ORIENTED ASSISTANCE?

Some of the above concerns can be raised about Title II assistance. As we are all too well aware, many countries in Africa face a food crisis. Yet an examination of Title II assistance given to African countries as compared to the U.N. Food and Agricultural Organization's projected food needs shows the influence of U.S. foreign policy. The largest recipients of project food aid are not always the neediest countries in Africa; needs assessment is not the only guiding factor for allocation of Title II assistance.

But even if this were not the case, there is no natural link between the U.S. agricultural surpluses and the ending of world hunger. Lack of food is not the real problem, poverty is. Behind famine and drought in Africa are economic, political and social conditions; behind the drought is the already pervasive poverty of the majority of African people.

To close the food gap in developing countries, U.S. assistance needs to:

(1) strengthen the agricultural sector by pursuing a vigorous peasant-based strategy which will help the rural majority and those subject to food insecurity to be more secure. This would include support for sound pricing policies, credit schemes, agricultural extension programs, and research on basic grains

(2) reduce poverty by providing access to basic resources for peasants and small food producers, including access to land and credit as well as inputs such as seeds, tools, fertilizers, and draft animals.

It is Oxfam America's experience and the experience of our sister agency Oxfam U.K. that project food aid, food administered by private voluntary agencies and multilateral institutions, can never alone achieve these results. We must be honest with ourselves that free food is only charity, it is not a vehicle to self-reliance, to food self-sufficiency.

COMMENTS ON PROPOSED REFORMS

Food aid to be effective needs to be viewed as part of an overall food security strategy—it needs to be a component of development projects, not the sole ingredient. In light of this, we offer the following comments on proposed reforms to Title II assistance:

(1) Monetization: In theory monetization of food aid addresses the need to strengthen the effectiveness of food assistance by combining it with development aid. As proposed, however, monetization needs to be weighed against the negative impact of selling food on local markets:

(a) Title II, Section 207 (a)(1) language on monetization needs to be more concrete. As proposed, the 25 percent monetization language does not recognize the varying abilities of in-country markets to absorb large quantities of food assistance without depressing local prices. While some large American private voluntary agencies claim success with monetization of food aid, especially in India, we have seen no convincing evidence that this experience can be generalized to other developing countries. A way to deal with different in-country circumstances and needs would be to evaluate each country and set up a specified amount for sale of any given commodity. If these specified amounts cannot be determined on a country-by-country basis, then a figure lower than the proposed 25 percent is needed, preferably around 10 percent.

Likewise, Title II, Section 207 (a)(2) should be modified to read "the administrator . . . is authorized to approve sales for local currency of agricultural commodities exceeding 10 percent of the commodities . . . " This would ensure periodical reviews of monetization and its effect on recipient countries. Recognizing the possible benefits of monetization, this language leaves open the ability to monetize more food assistance if the need and absorbtive capacity can be documented.

(b) Title II, Section 207 (a)(1), regarding the role of voluntary agencies, needs to be strengthened. The proposed language, "in selling agricultural commodities voluntary agencies shall take all reasonable steps, including appropriate timing and selection of commodities to be monetized, to avoid substantial disincentives to food production in the recipient country," will not ensure adequately against lower prices for locally grown foods. "Reasonable steps" leaves the interpretation of reasonableness up to the individual agencies. Structurally it appears to put agencies in a position where their need to sell food to subsidize their development projects may encourage them to sell larger amounts of food for longer than circumstances demand. The language also should be modified to require input from governmental and private recipients as well as local marketing boards.

(2) Monetary Resources: Provision of direct cash resources is preferable to either monetization or direct food aid. Consideration should be given to raising the proposed 10 percent.

(3) Minimum Tonnage Levels: It is Oxfam America's position that minimum tonnage levels serve no purpose. A minimum level only engrains a surplus-motivated versus a needs approach to providing food aid. Food aid should only be allocated on a needs assessment basis and must not be dictated by U.S. agricultural surpluses or other motivations.

(4) Local Food Reserves: The positioning and storing of grain overseas is a good concept. Resources, however, should be made available to pay for storage and transportation so that local food surpluses do not have to compete with U.S. food aid for storage facilities and precious resources.

FOOD AID WITHIN A RECOVERY CONTEXT

The food shortage in Africa—estimated by the Food and Agriculture Organization (FAO) as 6,944,000 mt tons—will not be solved solely by providing food. If one looks for "solutions," then one must acknowledge first that the crisis will be continuing and that efforts must be sustained over the long haul. Second, one must realize that food aid is effective within a relief situation, but has limited impact beyond that. Third, that food aid's effectiveness in emergency situations is contingent upon its place in a recovery plan. Food alleviates hunger today, recovery assistance prevents hunger tomorrow.

Thus within certain guidelines, short-term emergency relief aid is the most effective use of American food assistance:

(1) An emergency should be defined as an event which affects food availability. This definition is necessary because a natural disaster does not mean automatically a disruption in the local food supply. A case in point is the 1976 Guatemalan earthquake. Local food grains were available a short time after the earthquake. U.S. food aid was unnecessary and served only to depress local grain prices, thus hampering recovery efforts

(2) Food assistance needs to be both adequate and timely. Unfortunately, we are in the position of asking "what if" in the case of Ethiopia: What if food aid was sent in the fall of 1982 when the FAO first documented the food shortage?; What if U.S. food aid sent in FY 83 and 84 had been adequate? To avoid this situation in the future, U.S. food aid must be sent when the need is recognized.

(3) Food aid should be both planned and coordinated to ensure its benefits in-country recovery schemes. Planning and coordination should ensure that food reaches people when they need it, not after the crisis has reached momentous proportions.

(4) Relief must be accompanied by recovery assistance. Food aid only relieves hunger for a short-time. In order for it even to be considered development or recovery assistance, it needs to be combined with seeds, tools, and draft animals. Dumping food into a country with no plans for its use, effect or role in an overall recovery scheme is irresponsible. In Ethiopia, good planning would ensure that people receive the resources necessary to leave feeding camps and return to their homes to plant for the June rains.

(5) A reasonable but flexible cutoff date for the provision of food aid is absolutely necessary. In order for food aid to be effective within a recovery plan, it needs to be gradually phased out, so people can begin their planting. Food aid which is either late or provided for too long a time, only reinforces the permanence of relief and feeding centers.

TOWARD STRENGTHENING U.S. EMERGENCY RESPONSE

Oxfam America recommends strenghening the provisions of U.S. emergency food aid, currently administered under P.L. 480, Title II, to be more responsive to the food needs of developing countries. Since Title II emergency assistance is often hampered by political consideration and motivations other than humanitarian concern, this assistance should be separated from the current P.L. 480 program. To this extent, we strongly recommend this Committee to consider:

(1) Reconstituting Title II emergency assistance in a bill other than P.L. 480 to emphasize its nonpolitical nature. As mentioned earlier, P.L. 480 is often motivated by concerns which conflict with humanitarian response. Placing U.S. emergency food assistance in a separate bill would give credence to its stated nonpolitical aims and strengthen control over its use and implementation.

(2) Raising Title II emergency assistance to $900 million, the approximate amount allocated in FY 85. For the last two years, Congress has had to pass supplementals to provide adequate funding for emergency assistance. This process has been held hostage to other political agendas. As a result, people in need die. To be effective, food aid must arrive before people leave their communities and establish themselves in relief camps. Delaying the process only magnifies the crisis.

(3) Establishing an independent planning and coordination committee to review the food gaps in developing countries. A process needs to be established to deliver food aid when the need is first recognized, not after the crisis has peaked. An independent committee could monitor food needs in developing countries and allocate resources based on projected needs.

(4) Positioning grains overseas in substantial amounts for easy access in times of crisis. This again is a step which will ensure a timely response to a food crisis.

(5) Providing adequate recovery assistance. Relief assistance is most effective when its in part of a recovery plan. Relief aid unaccompanied by seeds, tools, and draft animals can act as a disincentive for people to leave feeding camps and return to their homes.

CONCLUSION

The appropriateness of food aid as a development tool is still uncertain. The crisis in Africa will not be solved this year. What is needed is a strong commitment to helping African countries and their leaders implement their own plans for food self-sufficiency. Food aid alone will not accomplish this.

From our experience, the most effective use of food aid is as a short-term measure in an emergency. In these situations, food is both needed and appropriate. But beyond these emergencies, food aid needs to be combined with recovery assistance if it is to play a role in gaining food self-sufficiency.

Thank you for this opportunity to present testimony.

[APPENDIX 1]

Toward an Oxfam America Policy on Emergency Food Aid

The Problem: Drought, war, and the interplay of faulty or pernicious national and international policies affecting the production and distribution of food have left Ethiopia, Sudan, Chad, Mali, Mozambique, and other parts of Africa with insufficient food to feed their populations during the coming year. Stocks in neighboring countries appear too low to permit purchases in the region. Groups like Oxfam America, while effective at small-scale relief and development efforts, are too small to meet needs of this magnitude. In the short run, emergency food aid—much of it from the U.S. government—appears to be the only remedy. However, in the past, Oxfam America and many other groups have been critical of the impact of U.S. food aid on the third world countries to which it has been sent. Under what circumstances should Oxfam America and like minded groups call upon the U.S. government to send emergency food aid? Our own experience indicates that emergency food aid from western countries should only be sent when, as in much of Africa today, there are no food surpluses available for purchase on the national market. Often surpluses do exist in other sections of affected countries, in which case assistance with transport and the logistics of distribution is more appropriate than massive imports of Western food. However, in the current African crisis, emergency food aid is essential.

Such emergency aid is quite different from the general run of U.S. food aid. Two-thirds of U.S. food aid is in the form of bulk sales of food to governments for local resale. This aid, often motivated by U.S. political objectives rather than third world need, has been a prop for recipient governments. It has reduced pressure on these governments to try to solve their chronic food production problems. Much of this food is consumed by the urban middle and upper classes, the military, police, and civil servants. Little reaches people in need in remote parts of the country. In countries like Mauritania in West Africa, it has become a magnet drawing people to already overcrowded urban areas. Such long term government-to-government bulk food agreements demand continued scrutiny. The current urgent need for emergency food shipments, however, presents different problems.

What can be done to maximize the benefits and minimize the detriments of emergency food aid?

Oxfam America is primarily a development, not a relief, agency. Building on the attempts of grass roots groups to cope with the often chronic crisis situations which they face has given us experience in identifying and supporting agricultural, livestock, water, and income generating projects intended to increase peoples' long term food security. However, acute crises such as the current situation in Africa, and in Somalia and Kampuchea in the recent past, have moved Oxfam America into relief work.

At the national level in famine-affected nations, Oxfam America seeks to reinforce the effectiveness of indigenous non-governmental relief organizations and to strengthen the coordination between them. The January 21, 1985 Oxfam America airlift to Sudan and Ethiopia carried medicines, and items such as sugar, oil, and powdered milk to supplement relief staples supplied by other donors. All these supplies were identified as urgent priorities by the in-country non-governmental organizations with which we work. These NGOs are responsible for locating the sites of greatest need and distributing supplies in the most efficient way possible. In Mali, Oxfam America has made a grant to fund the running expenses of the CCAU, a coordinating and information sharing group of local and expatriate NGOs established to cope with the current crisis. Working through such local non-governmental organizations both minimizes red tape and bureaucracy, and builds local capacity to cope with future disasters.

In both Tigray and Mali, Oxfam America has provided funds for NGOs to purchase local food supplies while they remain on the market. This reduces the cost and insecurity of transport and stimulates local food production. In Mali, OA has funded a revolving fund to purchase meat dried in the traditional manner from coops of pastoralists whose herds are threatened with starvation during the coming dry season. A similar revolving fund has been established to enable peasant cooperatives in northern Mali to purchase the small remaining stocks of grain from coops in the south. Grants to other parts of Africa have gone to purchase trucks and fuel to facilitate food transport. As much as possible, Oxfam America uses its relief funds to stimulate local food production, and to strengthen the capacity of incountry NGOs to respond to the situation.

At the local level, OA's experience suggests that it is better to sell relief food than to give it away. In Mali, both the dried meat and grain purchased by OA's revolving funds are intended to be sold to consumers at a fair price. Free food aid, except to the absolutely destitute, tends to create dependencies and undercuts incentives for local food production. For this reason, other OA projects in famine-affected areas provide grants to pay people in cash rather than in food to work on needed development projects. Ideally, local village associations or cooperatives identify such projects. With cash, people can buy the foods they prefer as long as such food is available on the market. Food-for-work projects have often been less efficient and desirable. In Mopti in central Mali, workers in a project organized by another agency were paid with food including canned chicken in aspic from the Netherlands. The chickens were not locally palatable and people sold them at a price much below their estimated value as part of their wage. They then used this money to purchase the foods they in fact wanted.

From our own experience and from the research conducted by Oxfam UK, food relief is most effective when the foods are locally known and acceptable. This avoids waste, such as the chicken in aspic. It also avoids the creation of new needs, such as wheat or powdered milk. It must arrive during the time of greatest need, usually the planting season when reserves have dwindled and people must expend maximum effort to ensure the next harvest. Too often relief has arrived as the harvest is beginning, glutting the market, dropping the price of grain, and plunging local farmers into debt. Clearly this is a disincentive to longterm local food production. Relief is most effective when it is distributed to people while they are still in their own communities and when it relies upon locally determined and acceptable distribution systems. Once people have moved into famine or refugee camps, food aid can encourage the growth of permanent settlements and longterm dependence. It often shifts the decision-making process to expatriates or educated local young people undercutting traditional leadership. Once people have left their home communities and entered the anonymity of the camps, it is difficult for unfamiliar authorities to know their needs. It is those who are weak and alone who may be neglected—those too sick to come to distribution points, mothers with several young children and no other adult to assist, and older widows without kin. In their own communities, such people would usually be looked after.

Emergency relief is most effective when it reinforces rather than disrupts existing economic, political and social systems. This is best accomplished by getting it to people while they are still in their home communities. Barring that, it should be distributed in ways that encourage them to return to those communities as soon as possible to resume their lives. With refugees, this is not always possible. However, relief is destructive to individuals and societies when it is allowed to continue for long periods of time with no clear plan to restore people to productive lives.

[APPENDIX II]

Emergency Food Aid That Works

Oxfam America's own relief experience and that of other organizations indicates that to be most effective, emergency food aid must:

arrive where it is needed at the time when it is needed, not after the most vulnerable have died and not at the local harvest time

be purchased as close to the famine area as possible to save transport time and costs and to stimulate local production

be locally known and acceptable so that it is neither wasted nor used to create new needs

be sent in response to prioritized requests from private voluntary organizations, either local or expatriate, with field staff in the affected areas

if at all possible, be distributed to people while they are still in their own communities, through a locally determined distribution system which builds on indigenous leadership and knowledge of real levels of individual need rather than waiting until people have been forced to move into famine camps run by expatriates, local educated youth or government officials who may not be seen as legitimate leaders and who can not as easily know actual levels of need

with pastoralists and other groups living far from distribution centers, larger amounts of food aid should be given less frequently. Camps form quickly if small amounts of food are given often.

if famine camps have formed, as soon as possible seek steps to prevent them from becoming permanent settlements by decentralizing food distribution to sites nearer to peoples' home communities

if at all possible, sell relief food at a fixed, low price. This can be accomplished as Oxfam America has done in northern Mali by providing cash for a revolving credit fund to enable people to buy food with money which they later repay. Food can also be sold to people identified by ration cards rather than giving it away free to all who request it. The minimum amount which an individual can buy at the fixed price must be regulated, and a 'safety net' provided for those without cash. This may entail providing people with work that pays a cash 'famine wage.' If adequate food at a fixed price is made available at ration shops putting cash into peoples' hands enables them to purchase the foods which they will actually eat, leaves money for other necessities like medicine without forcing people to sell their food rations on the black market to raise the cash they need, and also provide an incentive for local producers to grow and market food as soon as possible, reducing long term dependency. Providing affected groups with both cash and access to fixed price supplies of food may attract food to the market which merchants and speculators have hoarded, reducing the overall food deficit. The Indian experience indicates that checks on the abuse by entrepreneurs can be built into the system by offering only less desirable staples such as sorghum or cassava instead of wheat or rice, selling only in small quantities on a weekly basis after a substantial wait in line, as well as requiring valid ration cards. At least in India, such steps have apparently been successful at providing a safety net for the destitute while compelling the rich to buy their food on the open market. However, such a system may be difficult to establish with the speed required by an emergency situation because of a lack of trained personnel, storage and transport facilities, and the complexities of determining prices and amounts of food to be sold in the ration shops at subsidized prices

food aid must be accompanied by transport assistance in the form of vehicles or fuel if it is to reach remote areas. Transport may actually be more important than donations of food, especially if food surpluses exist in other parts of the country which can be purchased and transported quickly

if, as relief efforts merge into development work, projects are initiated to provide people with either food or cash, these projects should be carefully planned with the people and with local authorities to ensure their appropriateness and long term viability. They should not be like the roads that lead to nowhere in Ireland and India, or the irrigation projects in northeastern Kenya that were built without attention to the availability of water

Food-for-work projects have often proven inefficient because the recipients are not motivated to be highly productive, are so poorly planned as to be irrelevant, and problematic for recipients because they may lack the means to transport the food to their families. Donors organizing food-for-work projects have frequently overlooked the level of technical and administrative skills required to build roads and other types of infrastructure, and failed to provide the capital to purchase tools and materials required for even simple projects. Cash is often preferred by the people, motivates more diligent work, is easier to transport, and may be more easily accounted for than food which is both bulky and easily lost. Food-for-work may, however, be appropriate at the end of a relief effort to help distinguish those in real need from those who have other resources. Those who have other means will not usually work only for food. It can be a way of easing people out of a dependent relationship and out of the camps.

STATEMENT OF ROBERT AINSWORTH, DIRECTOR, WORLD VISION RELIEF ORGANIZATION

Mr. Chairman and distinguished Committee members: My name is Robert Ainsworth and I am the Director of World Vision Relief Organization. I am here today to testify on behalf of World Vision, as one member of the private and voluntary organizational (PVO) community, concerning the currently proposed amendments to the Agricultural Trade Development and Assistance Act of 1954.

World Vision, has been increasingly active in both the Title II food assistance program and the Section 416 program of the Agricultural Trade Development and Assistance Act of 1954. Our experience to date has been quite positive and we have found these programs to be extremely effective in ministering to the needs of the poor, the impoverished and the hungry in developing countries. World Vision is very grateful for the assistance which has been provided to us and through World Vision to thousands of suffering individuals.

However, there are several areas within the Agricultural Trade Development and Assistance Act of 1954 which we feel could be better tailored to produce more effective programs and to better meet the goals for which it was intended. I would like to address four of these issues very briefly before you.

The first area which I would like to address on behalf of World Vision is the issue of increased monetization levels. As I'm sure you are aware, the concept of monetization allows for the sale of a certain amount of agricultural commodities in order to obtain local currency. The currency generated from such sales is then used to help support program costs for distribution of food, particularly including in-country transportation costs. Moreover, an increased allowance for monetization would also allow for the opportunity of adding to the effectiveness of current food aid programs by not only helping to support in-country transportation costs (which, in developing countries, can oftentimes be quite significant) but also and as importantly to allow for the opportunities of much greater success in the overall goals and objectives of U.S. Government food aid programs.

No food aid program is going to successfully confront the problems which suffering individuals in a developing country face without, at the same time, allowing for adequate provision of monies to assist in providing balance to such programs by allowing for additional program elements such as primary health care and the provision of needed agricultural supplies and education. Without provision of elements such as these in addition to basic food aid, no program is going to stand a chance of either long-term success or of life-changing results for those whom it's meant to serve.

The second area which World Vision is extremely concerned about is the necessity of an increase in the minimum tonnage limitations for the current Title II Program. From World Vision's perspective, the issue of increased monetization is critical as a first step towards more effective and efficient food aid efforts on behalf of the United States Government through the efforts of private and voluntary organizations. However, increased levels of monetization will require that we increase the minimum tonnage levels of the current Title II Program, so that the draw down resulting from increased monetization will not ultimately result in less food to the targeted beneficiaries. Let me cite Africa as a specific example.

Africa has been significantly affected by drought over the past several years and the human suffering which has resulted from that is not something that I need to go into great detail with you here today. However, since 1981, the appropriation levels for the minimum tonnage requirements of Title II programming have essentially been a straight line with little increase for non-emergency Title II food aid. Even the current tonnage levels for fiscal year '85 are substantially insufficient to meet the significant levels of need which unquestionably exist in Africa at this point in time, and it is also significantly less than what can currently be handled by existing private and voluntary organizations operationally active in Africa. If minimum tonnage levels are increased, World Vision and other PVOs will be able to expand our programming efforts in Title II food aid, particularly in meeting the needs of drought-stricken Africa. The prospects for positively impacting both the United States balance of trade and for meeting the increased nutritional needs of children in developing countries are each inherent in the argument for increased tonnage levels.

A third area of concern is the need for multi-year programming agreements under Title II food aid programs. It is extremely difficult for private and voluntary organizations such as World Vision to not be able to plan with consistency or assurance on upcoming fiscal-year food aid availability. It is difficult to commit increased programming efforts in a specific area or country if there is not the guarantee that sufficient foods will be available during the next program year to meet the needs of the beneficiaries one is attempting to serve. Additionally, the inability to confidently plan on the multi-year availability of food aid can often result in significantly increased logistical problems when food aid does arrive, such as port congestion when significant influxes of food are necessary.

A fourth and final area of concern for World Vision is the proposal to expand the eligibility of surplus food for overseas distribution under Section 416 of the Agricultural Trade Development Assistance Act of 1954. In administering the Section 416 Program, only surplus dairy commodities and wheat are specified for distribution by law. Even under this specification, wheat has not been a commodity which has been distributed under the Section 416 Program.

There are currently significant surpluses of wheat, rice and corn in the United States. These items as well as sorghum and seed oils hold tremendous potential for meeting the nutritional needs of suffering and hungry individuals in developing countries. It would be particularly helpful if the current Section 416 Program were expanded in eligibility to include these surplus items.

Moreover, I am sure that you, as Committee Members, are familiar with the Section 416 Program is designed as a supplement to and not a replacement of the PL480 Program. Also, the Section 416 Program primarily obtains its food reserves as a result of surpluses stemming from agricultural subsidy programs, rather than outright purchase of the goods as occurs under the PL480 Program. Given the significant and continuing need of food aid throughout the continent of Africa, and given that it currently costs the U.S. Government a significant amount of money simply to store the surplus goods held under the Section 416 Program, World Vision feels very strongly that additional goods made eligible for Section 416 programming could be distributed to supplement the resources provided by the PL480 Title II Program.

On behalf of World Vision Relief Organization, I personally thank each of you Committee Members for taking the time to listen to this brief testimony. I appreciate your concern with the above issues and ask for your support for current legislation addressing these. Thank you for your commitment to encourage success and efficiency in current food aid programs administered through the partnership of the United States Government and the private and voluntary organizational community.

STATEMENT OF ROGER ASENDORF, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. Chairman, my name is Roger Asendorf. I raise soybeans and corn near St. James, Minnesota, and I'm currently serving as President of the American Soybean Association. I appreciate the chance to be here today.

The American Soybean Association is a national non-profit commodity organization controlled by soybean farmers. ASA has some 25,000 dues-paying members and receives financial support from 420,000 farmers in 24 states who voluntarily invest in ASA activities through checkoff programs. Its objective is to build profits for America's 520,000 soybean farmers. ASA's major activities include expanding exports, promoting domestic sales, sponsoring soybean research, working for favorable public policies and providing information.

Mr. Chairman, the state of agriculture in 1985 is not good. Farmers face low commodity prices, high interest rates and plummeting land values. At the same time, we find ourselves in a moment of rare opportunity: With the nation's attention focused on agriculture, we have a chance to renew America's commitment to a sound agricultural industry and put profits back in the picture for the country's farms.

Today's farmers are participants in the world marketplace whether they want to be or not. Producing solely for the domestic market is simply not an option unless we want to drive a great many of our farmers off the farm, for with close to 40 percent of all our crop acreage being planted for overseas markets, you just can't prop up prices high enough to make up for the loss of sales if we abandoned export markets.

If we're inextricably in the export market, then, we'd better be competitive: We'd better sell more rather than less. Yet, as we all know, after the export boom of the 1970s has come the export bust of the 1980s. Soybeans have suffered from declining export sales just like other commodities, with the present marketing year shaping up as a major disappointment: USDA estimates of soybean exports have fallen by 45 million bushels since January alone, and most trade analysts say the Department's figures are still over-optimistic.

What caused agriculture's export slump?

The U.S. dollar rose dramatically against other currencies, so that U.S. exports became more expensive for our foreign customers to buy.

World recession made demand fall; anemic recovery in many countries kept it down.

Competing nations, such as the European Community, subsidized their exports and underbid the U.S. for market shares.

The 1980 grain embargo shut the U.S. out of what was then a growing Soviet market and helped give our nation a reputation as an unreliable supplier.

The international debt crisis caused Third World countries to reduce their imports and expand their exports, agricultural and otherwise, in order to improve their trade balances.

Both importing and exporting nations increased their food production because of good weather, higher prices and other factors.

Each of these factors and many more played a part in making U.S. products less competitive. Three years ago ASA would have assured the Committee that the United States was the most efficient supplier of soybeans in the world. We cannot make that claim today. In the last three years, we've seen our competitive advantage disappear—not because of anything American soybean farmers have done or not done, but because of factors over which they can exercise no control: subsidies to foreign exporters, exorbitant real interest costs in the U.S., and most of all the rise in the value of the dollar.

It's instructive to compare the price of U.S. soybeans in our customers' currencies with the level of U.S. soybean exports to those countries. For virtually all of our top customers, the same pattern emerges: The effective price of U.S. soybeans to our customers rose in 1983 and 1984; the volume they bought dropped. That's first-semester economics, of course: demand falls as price rises. But today's world of floating exchange rates puts a new twist on the old principles, since American farmers don't have the higher prices to console them for the sales volume they're losing. U.S. prices have been flat or falling in recent years, while the effective price our customers pay has been rising. What our farmers know to be a lower price feels like a higher price to our foreign customers.

The U.S. dollar is high for several reasons. Congress should take a close look at all the factors involved. One reason the dollar is overvalued is that the real interest return on dollar investments is being kept higher than it should be because of excessive federal borrowing to finance the U.S. budget deficit.

Government is spending too much money. It must spend less. We believe deficit reduction should be the first priority of domestic policy, and that means restraining federal spending. Farmers are willing to accept their fair share of the cuts if others do likewise, but they don't believe it's fair for agriculture to undergo severe cuts while some other parts of government see only reductions in their rate of increase.

The American Soybean Association supports a pro-trade agricultural policy that will allow the United States to be the preferred supplier of agricultural products for the world market. The relevant question today is, what can Congress do to construct this pro-trade policy?

How can Congress help us export our products? Let me offer several specific recommendations for your consideration.

Recommendation #1: Make exports title I

ASA believes agricultural export policy should be Title I of the new Ag Bill. It's time to declare to our competitors and our farmers that selling, not storing, is our top priority. We need to send a clear, unmistakeable signal to the world that we're in the market, and in it to stay . . . that the United States is tired of absorbing the world's surpluses, and will no longer do it; that the United States is tired of providing its competitors a guaranteed price, and will no longer do it; and that the United States is tired of getting pushed around by other nations' subsidies and trade barriers, and will no longer tolerate it.

Export promotion should be not only the first title of the new Agriculture Bill, but also the first priority when budgetary priorities are set, as they inevitably must be. The reason is simple: U.S. agriculture cannot prosper without expanded exports, period. It therefore behooves the nation to achieve expanded exports. It behooves us to devote some resources to competing and selling. The rest of the world must become convinced we will sell our production, whatever it takes.

Recommendation #2: Expand sales and invest in infrastructure

ASA supports a coherent system of Sales Financing and Infrastructure Development (SFID) as the best way to tailor our sales efforts to our customers' buying needs and abilities. This concept should have two primary applications:

Direct Sales Expansion, primarily through credit packages for foreign purchasers of U.S. commodities, in the form of both direct credit and credit guarantees, and

Infrastructural Investment to build up countries' long-term capacity to buy and utilize U.S. products.

Each application calls for somewhat different tools. Direct Sales Expansion, for instance, should include (1) traditional programs like GSM-102 guarantees and GSM-5 credits; (2) a new intermediate "bridge" program to provide export credit with 3-10 year repayment terms for countries who cannot meet GSM-102 terms but have moved beyond P.L. 480 donations; and (3) an enhanced Food for Peace program for countries at the bottom of the economic ladder—perhaps in combination with the President's Food for Progress initiative.

Infrastructural Investment also makes long-term sense. Until a country can receive, store and distribute commodities efficiently, its potential as a U.S. market is limited. Far too many of its resources available for commodity imports are wasted on high freight costs, bagging, waste and spoilage. Infrastructure lending should be used to finance improvements in a country's capacity to handle, store, market, process and distribute U.S. commodities. Repayments should be set up on a 3-10 year schedule. A portion of the repayment should be made in local currency, and used by USDA-approved cooperator groups for market development activities within the country to develop even greater demand.

The SFID concept embraces forms of direct aid like Food for Peace. Where possible, though, it relies on providing financing packages which can make it more attractive to buy from the United States. There are other important ways of building sales and investing infrastructure: Funding for cooperative market development, for example, should continue, with adequate resources from both farmers and the public. Using all these tools, we can move toward our goal: supplier of first resort, not last. SFID can help the U.S. build markets, and keep them, and it can help farmers build profits.

Recommendation #3: Reform maritime subsidies

We will not be able to build markets, however—indeed, we will not even be able to keep the ones we have—if government insists on crippling the very programs designed to restore U.S. market share. One very pertinent example: the recent court decision that cargo preference laws must apply to USDA's blended credit program. Because cargo preference means higher shipping costs due to uncompetitive U.S.-flag rates, this decision basically prices the blended credit program out of the world market. The same thing will happen to the GSM-102 credit guarantee program if subsequent lawsuits render it subject to cargo preference as well. There's only one answer, Mr. Chairman: Congress must reverse this court ruling, and at the same time make a basic reform of the nation's maritime policies. Cargo preference is a subsidy to the U.S. merchant fleet, and as such it should not come out of the USDA budget. If our merchant fleet is a matter of national security, then we should directly subsidize the maritime industry as part of the Defense budget. We need truth in budgeting, and we need a total exemption from cargo preference for agricultural commodities, including those shipped under the Food for Peace program.

Recommendation #4: Keep soybeans price-competitive

ASA asks Congress to continue one of soybean farmers' most valuable marketing tools, the soybean loan program. This program keeps U.S. soybeans price-competitive in world markets and guards against stocks buildups. The loan rate does not provide soybean farmers a guaranteed profit, nor should it. But it does serve as a source of credit and allows the farmers to pursue flexible marketing strategies.

Under this program, the loan rate is set at 75 percent of the average market price received during the last five years, dropping the high and low years. There is a $5.02 minimum loan, which could drop if prices averaged less than 105 percent of the loan. That hasn't happened, but if it did, the loan rate could be reduced 10 percent per year, but not to less than $4.50 per bushel.

ASA believes that an extension of this loan program is the best way to make sure that the market sets the loan rate, rather than the loan rate setting the market. This in turn helps us compete overseas and prevents the creation of a "price umbrella" for foreign producers. For similar reasons, ASA opposes a target price, production controls, storage payments or a reserve program for soybeans.

Recommendation #5: Act decisively to expand exports

America's agricultural export situation is critical. What's needed in the policy arena is imagination, courage and the willingness to try new initiatives. Sound arguments can be made, on theoretical grounds, against virtually any export promotion idea anyone can suggest. I would point out, though, that the people who make those theoretical arguments don't have to face the reality of seeing their markets dry up and their competitive advantage erode while their own government stands idly by. With that in mind, I'd like to offer some ideas for creative export initiatives—concrete actions that could be taken now to increase U.S. sales abroad.

Decrease foreign currency risk: The overvalued dollar, to paraphrase Mark Twain, is like the weather: Everybody talks about it, but nobody does anything about it. ASA proposes a way the United States could do something about it.

At present, we are losing sales that might otherwise be made under the GSM-102 credit guarantee program because of customers' fears that the dollar may appreciate against their currencies while they are repaying their loan. What looks like a good deal now might prove significantly more expensive for these countries if the dollar rises in value.

But what if the United States guaranteed these countries that they would not suffer from a rising dollar? Specifically, the U.S. might index the dollar, at the time of an export sale, to a basket of currencies. If the dollar rose relative to that basket of currencies while the customer country was repaying its loan, the customer would be held harmless for the rise in value: He would continue to repay only an amount equivalent to what he would have repaid if the dollar had not risen during the period. The U.S. government would make up the difference to the creditor who made the initial loan.

Use surplus stocks to leverage export sales: The Commodity Credit Corporation's stocks of surplus commodities are clearly on an uptrend. Why not use these stocks to recover U.S. market share and counter the subsidies which our competitors have shown a clear unwillingness to end? For example, suppose a country purchases commodities using GSM-102 credit guarantees. The U.S. might provide the buyer with commodity stocks equal in value to the total amount of interest to be paid during the life of the credit guarantee. In effect, the customer has received interest-free credit, but CCC stocks instead of taxpayer dollars have been used.

Use surplus stocks to encourage foreign demand enhancement: U.S. soybean producers compete with subsidized exports from Brazil. A large percentage (over half, according to the new democratic government of Brazil) of that nation's people have substandard diets, but Brazil has to export soybean meal and oil in order to generate foreign exchange to service its massive debts. Brazil has also been a major customer for U.S. wheat, much of it under the GSM-102 program. What if the U.S. struck a bargain with Brazil to export less and give its people more? The terms of the agreement might look like this: Brazil would hold soybean production constant—but would pledge to decrease soy product exports below a baseline of recent years' exports. Instead of exporting this quantity of soy products, Brazil would divert it to domestic use: livestock and poultry feed, soymilk, etc. Brazilian poultry exports would also be held constant so the soybeans were not simply re-exported in the form of chicken.

By taking these actions, Brazil would be forfeiting a certain amount of foreign exchange. To compensate for this loss, the U.S. would "match" the Brazilian effort by donating surplus wheat from CCC stocks to Brazil. The amount of donated wheat would match, in value, the foregone soybean product exports.

What would be the effects of such a program? World demand for U.S. soybeans would rise, particularly if the initiative were maintained for two to three years; soybean prices could therefore be expected to rise somewhat; U.S. wheat stocks would be drawn down. But the benefits would extend considerably beyond U.S. agriculture: We would be helping Brazil to improve its people's diets through increased consumption of both soy protein and wheat, and strengthening its new democratic government.

These three initiatives are only ideas, Mr. Chairman. There may be better ones. But ASA is convinced that the time has arrived for innovative thinking and creative action to reverse the disturbing downtrend in American farm exports. The consequences of inaction are likely to be severe.

ASA would like to thank the Committee for considering our views on the 1985 Agricultural Bill. Our nation has some critical choices to make about agricultural policy. We must be honest enough to admit that the world has changed. What worked in 1935 may not work in 1985. Today's agriculture is a dynamic, changing industry that depends as never before on international markets. If it is to succeed, agricultural policy must respond to those markets.

Thank you for your attention, Mr. Chairman, and I'll be happy to try and answer any questions you may have.

STATEMENT OF JOHN S. BARR III, REPRESENTING NATIONAL COTTON COUNCIL OF AMERICA

I am John S. Barr III, a cotton producer from Oak Ridge, Louisiana. I serve as Chairman of the Board of the National Cotton Council of America and I am a member of the National Commission on Agricultural Trade and Export Policy.

The National Cotton Council is the central organization of the U.S. cotton industry, representing growers, ginners, warehousemen, seed crushers, merchants, cooperatives and textile manufacturers from the Carolinas to California.

The cotton industry is strongly supportive of effective export programs including PL-480 and GSM credit and credit guarantee. We export over 50 percent of our annual production of raw fiber and a significant volume of cottonseed oil. Export credit programs, such as the Commodity Credit Corporation's GSM-102 and GSM-5 programs, have been successfully utilized by our industry to develop and maintain markets. In the past, PL-480 programs enabled us to supply cotton and value-added products to markets which later became commercial customers, however, I must point out that cotton has had difficulty in obtaining adequate PL-480 allocations in recent years.

As an export oriented industry, we support the strongest possible export title, however, we should also call your attention to the special nature of our situation as suppliers of an industrial raw material. This will help clarify certain positions taken by our industry.

We are especially vulnerable to imbalances in world supply and demand, and world currency values. The inordinate strength of the U.S. dollar not only inhibits our ability to compete in world markets as fiber suppliers, it has also served to attract imports of cotton manufactured goods at a rate which will completely eliminate our domestic market in just five (5) years. In other words, the market for about 50 percent of our annual production-which is supplied to a captive domestic market—is in near-term jeopardy. For this reason, the cotton industry can not support any export bonus programs unless they can be made available to our domestic customers on an equal basis. Otherwise, the foreign manufacturers would gain an inordinate advantage over domestic mills.

Because cotton is a potential foreign exchange earner in world markets, where all trading is conducted in dollars, a number of cotton producing countries not only subsidize production, they also subsidize exports of both raw cotton and value-added products. The over-valued dollar serves to stimulate additional production and exports because our competitors receive a bonus when dollar earnings are converted to local currency. With a 40 percent increase in the value of the dollar since 1980, U.S. producers and exporters find themselves at a tremendous disadvantage in spite of efforts to remain cost competitive.

Further, world trade in cotton is dominated by two centrally planned economies—the Soviet Union and the People's Republic of China. In fact, over 70 percent of world trade in cotton is conduced by centrally planned economies or state trading firms. For example, in recent years, China has increased cotton production from approximately 10 million bales to nearly 30 million bales and now holds over 40 percent of world stocks.

The question then becomes what policies can be devised to compensate for world over-supply, an over-valued dollar, and an import sensitive industry. We believe there are fundamental programs which must be maintained and strenghtened, and there may be a need for short to medium term authority to defend our traditional export markets.

We would urge the Committee to strengthen the Commodity Credit Corporation's export credit and credit guarantee programs. We strongly urge re-authorization of the CCC's revolving fund and suggest you urge your colleagues on the Appropriations Committee to appropriate the funds needed to operate the program effectively. We also believe that the credit guarantee programs should be re-authorized and again the Appropriations Committee should be urged to appropriate adequate funding.

Consideration should also be given to adding a compensation factor to the GSM programs in relationship to the dollar's exchange rate as measured against a basket of currencies. The current utilization of GSM programs is off dramatically because no responsible buyer is willing to sign a long-term obligation in dollars due to the exchange rate risk which is effectively an interest penalty.

We believe there should be language in the authorizing legislation instructing the Secretary to utilize the CCC programs to staunchly defend any markets threatened by subsidized or centrally planned economies when they have increased production without regard to real market conditions and have obviously targeted certain markets which have historically been serviced by U.S. exporters. In the case of cotton, China has undertaken actions which increased production in disproportion to demand in their domestic market and without regard to the international supply/demand situation.

As a result, through barter and other marketing practices China could offer significant supplies to Pacific rim countries which traditionally have been important markets for the U.S. Through the use of export credit, bi-lateral negotiations and other tools at this nation's disposal, the U.S. should vigorously defend its markets against this artificial competition.

This week there is a delegation from the Republic of Korea in Washington. They are here to express interest in obtaining adequate allocations of GSM-102 credit guarantees for 1986 so they can continue to purchase U.S. cotton. If past experience is any indication, they will be given little hope that adequate allocations can be made and they will be encouraged to accept shorter terms than are available under the law. Until recently Korea purchased 95 percent of its raw cotton requirements from the U.S. This year that percentage will drop again because our best customers, who pay for the privilege of using credit guarantee programs, who have never defaulted and who have actually provided a source of income for the CCC, will not be able to gain the assurance they seek regarding our credit guarantee program.

I use the example only to point out that discretionary authority is not adequate because it is subject to veto by other agencies through the inter-agency review procedure. In the case of CCC allocations, other agencies have consistently blocked allocations which would have served agriculture's best interests. We are in a crisis, we cannot have agricultural export policy subjected to the whim of political considerations.

In addition to strengthening the CCC export programs, I urge members of this Committee to reject the imposition of origination fees on CCC programs. The Administration has proposed adding a 5 percent fee to export credit programs. It is illogical to promote exports on the one hand and add inordinate charges on the other. A 5 percent fee will ensure that the program is used only by countries with no alternative, so you guarantee massive defaults which will result in exorbitant losses far beyond the additional fees collected. There are currently guarantee fees in place which average about one-third of one percent. We would urge you to cap the fee schedule at no higher than one-third of one-percent.

If the proposed loan origination fees don't render the CCC programs ineffective-expanded cargo preference requirements will accomplish the same end. We have no quarrel with maritime interests who seek to preserve a strong U.S. maritime fleet. We simply believe agriculture is not the appropriate department to conduct those programs and urge the Committee to exempt all commercially oriented export credit programs from cargo preference requirements and to shift the budget for cargo preference programs to a department with overall responsibility for our maritime fleet.

We also urge the Committee to retain the provisions of Section 22 of the Agricultural Act of 1933, as amended. It provides agricultural interests with the only effective access to remedies for unfair trade practices and market situations beyond the producer's control. We believe the authority under Section 22 is important not only to cotton, but offers the only viable alternative for relief to other commodities which may be threathened in the near future by imports stimulated by the over-valued dollar or other factors beyond their control.

Ultimately, increased world consumption will be the key to a healthy U.S. agricultural economy and strong world trade. In this respect, we urge the Committee to develop a revitalized position on market development by strengthening the existing agricultural cooperator program. Our commodity groups must have the full and complete infrastructure offered through the Foreign Agricultural Service if we are to be in a favorable position to further develop and maintain markets for U.S. products.

Finally, we would encourage the Committee to consider the export titles of farm legislation in the overall context of trade policy. For each action, there should be a distinct and equal reaction. Agriculture is so basic to this nation's well-being that its trade policy must be coordinated and planned. The tools must be available to stimulate exports, maintain markets and retaliate against actions of other governments when they are clearly self serving and inconsistent with world supply and demand.

We sincerely appreciate the opportunity to present our views on this most important subject.

STATEMENT OF SHELDON J. HAUCK, PRESIDENT, NATIONAL SOYBEAN PROCESSORS ASSOCIATION

Mr. Chairman, Members of the Committee, Ladies and Gentlemen, Good Morning! I am pleased to be here today on behalf of the National Soybean Processors Association (NSPA) and very much appreciate the opportunity to appear before this Committee to testify. NSPA applauds the Committee for directing its attention to Public Law 480 "Food for Peace" program as a market development tool.

Since its enactment in 1954, P.L. 480, in addition to its primary role of serving humanitarian purposes, has played a major role in the creation of world market demand for soybeans and soybean products, and consequently, in the development of soybeans as a major cash crop for American farmers. NSPA believes that the prosperity of the soybean complex in the United States over the past 30 years is in large part due to the long term market stimulus provided by P.L. 480 Exports.

In today's economic climate, NSPA believes that P.L. 480 can likewise serve as a market stimulus to revitalize the ailing American agricultural system. We believe that more effective use of P.L. 480 will obtain maximum benefits for American farmers, the U.S. agricultural economy, and world economic development. However, in order to maximize these benefits, the U.S. must conscientiously follow a deliberate policy to emphasize more P.L. 480 commodities which provide the greatest benefit to the American farmer at the least cost to the U.S. government.

NSPA, supported by our soybean grower friends and colleagues at the American Soybean Association, believe that soybean oil is the commodity which can provide the greatest benefits to American farmers and the U.S. agricultural economy. We further believe this can be done at no net cost to the U.S. taxpayer, with a positive long run effect on U.S. government revenues. Accordingly we believe that the economic case for increased soybean oil exports under P.L. 480 is so strong that doubling P.L. 480 soybean oil exports would represent as important step towards solving the financial crisis facing American farmers today.

Why soybean oil? Why not some other commodity? The answer to that question is quite simple: world demand for edible oils increases about 2 million metric tons annually, edible oil demand is highly inelastic and, in developing countries, largely unfulfilled. On the other hand, soybean meal consumption is quite elastic as its price level greatly influences the production levels of livestock and poultry industries. Accordingly, a well balanced and growing soybean industry requires competitively priced soybean meal supplies without the creation of burdensome oil stocks. Experience shows us that the long term solution to this problem is in creating new markets for soybean oil in the developing countries. "Additionality" is the key word.

The impact of expanded soybean oil exports under the P.L. 480 program would extend far beyond the obvious benefits to soybean growers and processors—although those obvious benefits are vitally important at a time of serious farm finanial crisis. The Congressional Research Service quantified the benefit to soybean growers in an April 1984 study, estimating that an expanded P.L. 480 program would increase average soybean prices by 46 cents per bushel between 1985 and 1990. That's almost $1 billion more in soybean farmer income alone! Doubling P.L. 480 soybean oil exports would—

Stimulate the depressed U.S. agricultural economy, creating a substantial multiplier effect on gross national product with resultant increased employment and income as well as increased tax revenues to the government.

Provide farmers with profit incentives which would encourage a sizeable production shift from feed grains to soybeans, reducing U.S. government farm program costs for feed grains price support, and improving feed grain prices to the farmer.

The 1984 Congressional Research Service study projected that such an expanded P.L. 480 program could increase average corn and sorghum prices by 8 cents per bushel between 1985 and 1990.

Build a larger demand base for soybean meal by stimulating its availability and competitiveness to the livestock and poultry industries in the U.S. and overseas. Increased utilization of high-protein soybean meal by livestock producers at home and abroad will lower poultry and meat prices to the consumer, increase consumption and stimulate greater production of soybeans.

Provide a better nutritional balance to U.S. food assistance efforts in areas of world famine such as Sub-Saharan Africa, where lack of adequate daily caloric intake is the number one need—a need soybean oil could easily abate.

Create expanded economic development in beneficiary developing countries through local currency concessional sales. In the long-term, such expanded economic development will in turn stimulate commercial demand for various kinds of U.S. agricultural exports.

The case for more soybean oil exports within an expanded P.L. 480 program is supported by many of the recent conclusions of the President's Task Force on International Private Enterprise, plus considerable evidence that soybean oil's nearly four-to-one benefit/cost ratio is the highest for any commodity now programmed under P.L. 480.

These positive benefits can be obtained at a negative cost to the federal treasury because the initial outlays for soybean oil purchases would be more than offset in the short run by federal farm program savings from feed grain price and income supports, and in the long run by improved federal tax revenues.

Mr.Chairman, I am pleased to report that NSPA and ASA are issuing a White Paper in the near future which documents the conclusions which I have outlined for you today. We will be happy to make copies of it available to the Committee for its assistance in formulating U.S. agricultural policies to help address the current financial crisis in American agriculture.

Thank you, Mr. Chairman and Members of the Committee. I would be happy to answer any questions you may have at this time.

APRIL 15 HEARING—CONSERVATION AND RESEARCH AND EXTENSION ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, this year we will be marking the 50th anniversary of the soil conservation movement. The early soil conservation movement grew out of a recognition that our Nation could not afford to lose our greatest natural resource—our fertile farmland.

As we develop the 1985 farm bill, it is important that we continue the efforts started 50 years ago by including provisions to strengthen our Nation's commitment to soil and water resource conservation.

In the farm bill I plan to introduce, there are two natural resource conservation issues in particular I will address.

The first issue is the so-called sodbuster proposal. This legislation would remove the incentives—provided under the current farm programs—to cultivate highly erodible land. The Senate and House both passed versions of this legislation during the last Congress. However, the bills became bogged down in conference and legislation was not enacted.

The second natural resource conservation initiative I intend to include in my farm bill is a conservation reserve program. By some estimates, an adequately-funded conservation reserve program could reduce soil erosion by one-fifth.

A conservation reserve program will not only remove highly erodible land from production but it will also be an important step toward reducing the surpluses that continue to depress prices.

A conservation reserve program should not be viewed as simply a soil conservation measure. Instead, a conservation reserve program should be considered an integral part of our commodity programs. The integration of commodity and conservation programs will enable us to achieve the objectives of stronger commodity prices and natural resource protection at a minimal cost to the Treasury.

With regard to the budget for soil and water resource conservation programs, it is important to recognize that the success of our conservation efforts depends on a partnership that includes Federal, State, and local resources.

Unfortunately, some bureaucrats in the office of Management and Budget would like to dissolve this partnership by reducing and eventually eliminating the Federal conservation role.

I believe soil and water resource conservation problems are a national priority that must continue to be supported with a commitment of resources and leadership at the national level. Therefore, I will oppose the administration's efforts to reduce funding of these vital programs.

In conclusion, I will continue my efforts to enact legislation reflecting the fact that it is in the national interest to conserve our scarce land and water resources. We cannot afford to mortgage the future by depleting the natural resources that our children will rely on for their agricultural production.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: Farm conservation programs have traditionally been a true partnership between the Federal government and the farmer. During the Dust Bowl era, a number of important conservation programs were implemented which prevented a potentially disastrous loss of productive farmland. The next two or three years, though, are even more critical in this regard as we, hopefully, will enact legislation encouraging farms to convert marginal cropland to less intensive uses.

Mr. Chairman, I'm sure every one of us on this Committee recognizes the need for cropland erosion measures. The future productivity of America's farms depends on it. In this new Farm Bill we'll have an opportunity to re-establish long term conservation policy to carry us through to the end of the century. Innovations in production agriculture demand that we provide farmers with some direction in the area of conservation. I hope this new legislation will do that.

Thank you Mr. Chairman.

STATEMENT OF HON. JOHN EVANS, GOVERNOR, STATE OF IDAHO, ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman, we are here today to express our strong concern over the current plight of our nation's farmers. The Governors recognize the need to refocus and renew our nation's long-term agricultural policy. This morning I will long-term conservation programs and the 1985 Farm Bill on behalf of the National Governors' Association. I would like to address three issues which will be of importance to the Committee on Agriculture as they draft the 1985 Farm Bill:

The federal deficit
The role of federal agricultural programs
Long-term conservation programs

THE FEDERAL DEFICIT

The nation's Governors are deeply concerned about the large federal deficits that are projected to be 5 percent of our Gross National Product over the next five years. During the past year the federal government has borrowed an additional $200 billion—an amount almost equal to total farm debt—and paid $150 billion in interest to the national debt. Large federal deficits make interest rates high as the federal government competes with other borrowers, including farmers, for capital.

High interest rates increase production costs at home on the farm. Interest payments now account for about 20 percent of farmers' total cash outlays according to the Department of Agriculture. At recent levels, a one percentage point increase in the average interest rate on outstanding farm debts results in a $2 billion increase in farm production expenses.

High real interest rates also attract foreign investors to U.S. dollars which increases the value of the dollar relative to foreign currencies. Like wheat and pork bellies, the dollar is a commodity with a fluctuating trade value. There is probably no issue of greater concern to U.S. agriculture than the strong dollar. The enormous rise in the value of the dollar since 1980, approximately 80 percent in nominal terms, has jolted U.S. agriculture. Farmers are now faced with economic dilemmas which have traditionally been debated at economic summits.

Historically, America's best customers for farm products have been our European neighbors. One third of the entire U.S. soybean crop is sold to Europe. The climbing value of the U.S. dollar has placed a 26 to 30 percent export tax on all U.S. farm products in the eighties. In 1982, a bushel of soybeans at six dollars cost 10.2

German marks. In 1984, that bushel cost 18.1 marks—an 80 percent increase in two years.

Trade volume expanded 160 percent between 1960 to 1980. This expansion was largely due to the rapid growth in world income. From 1975–80 developing countries provided the fastest growing market for U.S. agricultural exports. The share of total U.S. agricultural commercial sales to the third-world grew from 30 to almost 35 percent. Countries such as Mexico, Nigeria, and Korea purchased about one third of U.S. agricultural exports. Export growth and sales are down now in these countries as they reduce exports to service debt repayment problems. A one percent increase in interest rates reduces purchasing power of third-world countries by $4 billion. More of their money goes for debt servicing and less for purchases of needed agricultural products.

The value of total agricultural exports which has been rising since the early 1970's, peaked at $43.3 billion in 1981, sliding to $36.1 billion in 1983 before a small upturn to $37.8 billion in 1984. Under normal exchange rates U.S. farmers are among the most efficient producers in the world. However, the strong dollar signals farmers in other nations to increase production for export in competition with the United States. While Canada has enjoyed record exports of grains and oilseeds, achieving its production goal of 30 million tons two years ahead of schedule, U.S. exports of grains and oilseeds have dropped from 150 million metric tons to 130 million tons. In the past five years the U.S. share of world trade in grain, our principal farm export, has fallen about 12 percent.

When American graineries bulge, net farm income slides. As the farmer goes, so goes the American taxpayer. Recent dollar appreciation cost U.S. farmers $3 billion in export sales in 1981–82. Concurrently, government costs increased $2 billion as grain moved into farm program stocks. This means that one sixth of total farm program outlays of $12 billion in fiscal year 1983 was incurred due to American macroeconomic policies. The real issue is not cost of U.S. farm programs. It is U.S. fiscal policy that demands immediate redress.

A substantial reduction in the deficit this year would send an important message to the financial markets that interest rates could decline further over the next year. This could also reduce the value of the dollar relative to other currencies which would make United States exports more cost competitive in international markets. A ten percent decline in the value of the dollar would increase farm revenues by 10 to 12 cents a bushel for corn, about 20 cents a bushel for wheat and about 50 cents a bushel for soybeans. Exports would increase 15 percent with a 20 percent reduction in the value of the dollar.

Accordingly, we support action by the Congress and the Administration to reduce federal spending in a manner that will distribute the burden among national defense and domestic spending programs. Such reductions, however, must not burden already hard pressed lower income Americans. The Governor's have a budget policy which reduces the deficit one percent of Gross National Product by 1990.

LONG-TERM AGRICULTURAL POLICY

The National Governor's Association has adopted policy which specifically recommends a re-examination of the way government policy interfaces with agricultural production. We believe that a commission should be created in the 1985 omnibus agricultural legislation to address agriculture's long term problems. We need answers to the following questions.

What are the opportunities for expanding export markets?

What plans must we lay for impending change in our rural economy?

What research and development programs should be funded to increase productivity and reduce costs?

What farm credit needs which must be met and by whom? and finally,

What is the appropriate long term definition of the federal role in supporting farm income?

Federal policy must continue to allow for an orderly transition in agriculture. Supply control programs achieved by reducing net farm income and increasing bankruptcies are not humane solutions for agriculture's problems. Governors recognize the need to provide a safety net for American farmers who are experiencing declining net farm income.

With respect to the specific budget cuts that the Administration has recommended, we oppose:

Reducing target prices and loan rates to levels which contribute to continued declines in land values

Eliminating acreage reduction and other supply control programs

Cuts in conservation and research programs which undermine the nation's long term commitment to these important program areas.

LONG-TERM CONSERVATION PROGRAMS

Current fiscal pressures dictate targeted agricultural programs. As a nation, we must realize the greatest returns possible from expending limited federal resources for agriculture. We recognize that our production capacity is far beyond what markets can absorb. Now is the time to provide intermediate programs which preserve our natural resources. Governors believe that soil and water conservation legislation must be enacted which simultaneously addresses supply control and environmental protection through cost-efficient farm programs.

Agriculture has enjoyed increased productivity because of scientific advances made through agricultural research. For example, production of wheat in the U.S. effectively doubled between 1960 and 1981. Yet, harvested area in 1975 was only 10 percent more than 1930. The growth in production came from increased yields. Experts anticipate heightened productivity gains when wheat and corn hybrids are developed and natural resistance to adverse weather and pest conditions are inserted into seeds. Therefore, experts predict that we can continue to meet gradually climbing increases in demand for food using available cropland. There is no need to maintain production on marginal land.

We recommend that the Senate Agriculture Committee carefully study sodbuster and conservation reserve proposals. We commend the Administration for supporting a sodbuster provision. Governors believe that we also need to build on the conservation reserve approved last year by increasing its size to 30 million acres. The measure would complement enactment of a sodbuster provision. Whereas sodbuster provisions are used to discourage bringing highly erodible land into crop production, the conservation reserve would be used to move highly erodible lands from crop production to a less intensive use.

A conservation reserve will prevent the permanent loss of valuable topsoil and the pollution of our rivers and streams. At the same time it removes some of the excess capacity that is choking our commodity markets. It is an idea that is in keeping with a sound long-term agricultural policy.

There are up to 44 million acres of erodible cropland. USDA estimates the cost of a nationwide conservation reserve to average $30 per acre. A thirty million acre conservation reserve could therefore be set up for a cost of about $900 million annually. Nine billion dollars over a ten year period is less costly and more effective than another PIK program. Thirty million acres is about nine percent of our harvested cropland, which might reduce production by 3 to 5 percent. Reductions in crop production will reduce federal expenditures for deficiency payments and commodity storage charges. In addition, a conservation reserve program may help reduce the problem of "slippage"—the tendency for the government to pay to remove an acre from production, but get less than an acre's worth of production control. There are several reasons why the reserve might be more efficient.

The first is the use of a bid procedure. If yields are lower-than-average on the land a farmer offers for the reserve, the bids the farmers offer will have to be scaled down accordingly. If gracing a retired land is allowed the bids should be lower still. Under current programs, the government often pays the full price of diverting land of average productivity, yet allows farmers to divert their least productive land. In fact, in the 1983 program, some farmers were allowed to place nonirrigated land in the conservation use acreage (set-aside or diversion), but received payments scaled to irrigated yields. A bid system would increase the efficiency of federal investments into a conservation reserve.

The second improvement in efficiency would arise from the selective, long-term retirement of specified tracts of highly erodible land. Under current programs, farmers have many opportunities to satisfy set-aside requirement of crop programs with their least productive land. This is because any land in a farm's base acreage can be used to satisfy the set-aside requirement, and the specific tract generally need not be designated until just before the final compliance date for the program—and that date is usually quite close to harvest time. For example, if a 10 percent set-aside/diversion is required for the wheat program, farmers will often plant most of their farm to wheat, then observe which fields grow best as the season advances. Just before the final compliance data they can mow or clip the fields where yields seem lower, designate this land as set-aside or diversions, and still comply with the program. As you can see annual acreage reduction programs offer loop holes which reduce the effectiveness.

Thus a conservation reserve would reduce the cost of commodity support programs. Reduced production would lower the Commodity Credit Corporation nonrecourse loans, deficiencies payments and storage payments for the farmer-owned reserved. These savings should be included in net cost calculations of a conservation reserve. This would significantly lower estimated program cost below 900 million annually.

Idaho was one of the three states to host a 1983 USDA pilot land conversion program. For an average of $173 per acre, cropland was placed into permanent vegetative cover for ten years. We had many willing participants at the low cost of $17 per acre per year. Similar programs were operated in South Dakota and in Alabama at even lower cost. In the Idaho pilot program the cost of converting the land to permanent cover was cost shared at 75 percent. While this increases program costs, some assistance is important to many farmers today who would not otherwise have the cashflow to enter the conservation reserve. Further study is needed to determine the necessary incentives for program participation.

The Governors believe that the conservation reserve should set aside land for at least ten years. It may be feasible to operate the program through the Commodity Credit Corporation to avoid obligating $9 billion in one fiscal year. The reserve could also be phased in over several years. We recommend that the Secretary of Agriculture should conduct a study seven years after program initiation to determine if retired land should be returned to production or be eligible for a second retirement program.

CONCLUSION

In summary, Mr. Chairman, the nation's Governors endorse the goal of deficit reduction supported by President Reagan but believe that agriculture should not unduly bear the burden of federal budget cuts. We believe that sound long term agricultural policy must be enacted to ensure that agriculture receives opportunity for a strong recovery. Therefore, we support enactment of sodbuster and conservation reserve provisions in the 1985 Farm Bill.

STATEMENT OF CLARENCE DURBAN, VICE PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

I am Clarence Durban, Vice President of the National Association of Conservation Districts, a private non-profit organization representing nearly 3,000 soil and water conservation districts. I am happy today to present to you the views of this association on the proposed 1985 farm program.

NACD believes we need four things to promote wise use of our soil and water resources: commodity programs that are tied directly to conservation, a strong Sodbuster provision, a conservation reserve to remove highly erodible acres from crop production, and continuation of the federal conservation program which provides the information and technical assistance necessary to carry out the implementation of soil conservation plans.

COMMODITY PROGRAMS

NACD supports changes in the commodity programs which will require USDA to consider the lands capability as a part of eligibility requirements for commodity program participation. This country can no longer afford to avoid this issue. City, county, state and federal governments are spending billions of dollars each year to remove sediment from waterways. At the same time, our commodity programs have helped make it profitable to cultivate lands that add to the sediment load. You now have the chance to change that policy and we encourage you to do so. The commodity programs can be used as a powerful economic incentive to promote soil conservation.

Any diversion program enacted in the future as a part of production control program needs to have a strong conservation provision. First we would suggest that the idled acres be required to be adequately protected from wind and water erosion. This could include a grass or legume crop, but it needs some type of protection from the wind and rain. Second we would encourage rules that require that the most erodible acres in the participants unit be used as the diversion acres when feasible. Third, we would suggest language be inserted to encourage the diversion of land near streams to be used as buffer strips and to enhance riparion vegetation where the opportunity exists. Fourth, we would suggest that any acres idled for a diversion program remain idle for at least three years. This will allow for a buildup of wildlife, such as upland game birds. Finally, we would suggest that any use of diversion acres (such as grazing or haying) be timed to give maximum protection possible to nesting birds and other wildlife considerations.

SODBUSTER PROVISIONS

NACD believes that there is still an urgent need for Congress to adopt statutory provisions tying eligibility for USDA programs to land capability on land being brought into crop production. We think that the sodbuster program should:

(1) make an operator who brings highly erodible noncrop acres into commodity production without an approved conservation plan ineligible for all USDA programs benefits. This would include loans, commodity payments, crop insurance, etc. for all of the commodities that operator deals with;

(2) have an exemption for previously cropped acres, but only if they were cultivated at some time in the five years immediately preceding passage of the Farm Bill;

(3) after a period of five years following enactment of this section, it should be applied to all acres defined as highly erodible without regard to previous cropping history;

(4) contain provisions that the sanctions against participation in federal programs are in effect until the operator complies with the requirement for a conservation plan and that the sanctions be transferred with any change of ownership;

(5) have an easily usable definition of highly erodible acres. If USDA changes from the present land capability classification system, we need a phase-in period of several years so that the conservation professionals and the operator are familiar with the system;

(6) contain provisions to enhance the ability of local conservation districts to provide the necessary information and services that will be required to comply with the regulations;

(7) language making it clear that its provisions do not preempt any local or state regulations.

CONSERVATION RESERVE

NACD supports establishment of a Conservation Reserve to remove highly erodible acres from annual crop production. The reserve would compliment enactment of a Sodbuster provision. Sodbuster is used to discourage bringing highly erodible land into crop production. The conservation reserve would be used to move highly erodible lands from crop production to a less intensive use. The conservation reserve should:

(1) have a definition of highly erodible land that is easy to use and understand by cooperators and field technicians;

(2) contain a cost-share program to pay 50% of the operator's cost of establishing permanent cover of grass or trees;

(3) have a bid system that allows USDA to reduce rent payments for land that is placed into the reserve but is used for haying or grazing purposes;

(4) include a cap on the number of acres idled in any one county in any one year only if no haying or grazing is allowed on the acres; there should be no cap on the number of acres in a locale during the life of the program except that forced by appropriation limits;

(5) specify the length of contract to be 10 years with the option of extending the contract for another ten years and contain strict recapture clauses to cover all payments plus interest if the contract is broken;

(6) state that any land placed into the reserve will be subject to all provisions of the sodbuster section at the expiration of the contract;

(7) contain a rental payment per year limitation but have no limitation on the amount of cost-share funds used to establish the vegetative cover.

GENERAL

NACD would suggest a couple of other general actions to enhance federal soil conservation programs. First we need to reauthorize the Soil and Water Resources Conservation Act of 1977 (RCA), but with some adjustments. We would suggest that the appraisal period be once every 10 years as opposed to the present five years. This would give us more time to see how well the program is meeting its goals. We would also suggest that the resource appraisal go to Congress first, with the new suggested national program to follow at a later date. This will allow for a clearer understanding of where the resource problems exist and how best to address them.

We would also suggest that more consideration be given to state priorities when developing the national program. Our last suggested change for the RCA program would be to extend it through the year 2005.

NACD encourages you to support the continuance of a strong federal component to this nation's soil conservation program. State and local governments have increased support of conservation programs dramatically over the last few years to supplement federal efforts. If we fail to support the federal side of this balanced program, those gains will be undermined.

During your deliberations, I ask you to think of those conservation district officials who serve without monetary compensation for all of the time they spend. They do that because they have a personal commitment to protecting the soil and water resources of this country. They look back to the early part of this century when agriculture ran unprepared into the wrath of nature. They remember those dry winds well with the topsoil from thousands of farms. They are determined to do all they can to prevent that scene from recurring.

As those district officials look forward to the future, NACD asks you to join them. Starting with the 1985 Farm Bill, we see the day when crop production and conservation will be seen not as a trade off of one against the other but as a single issue by all of us involved in agriculture. We are working for a day in the future when we can guarantee a stable, abundant food supply without compromising the quality of our environment.

Thank you for this opportunity to present the views of this association.

STATEMENT OF NORMAN A. BERG, WASHINGTON REPRESENTATIVE, SOIL CONSERVATION SOCIETY OF AMERICA

Mr. Chairman, that most chronic soil erosion problem, on many acres of highly erodible soils, now used as cropland, is not going to be reduced to a tolerance level "T" until those who decide how it is to be used each year have alternatives.

First, it is time for a strong sodbuster law. Legislation to end federal support for converting soils to crop use that have high potential for erosion passed both the Senate and the House in the 98th Congress. As a minimum, the U.S. should stop adding to the present erosion problem with outdated policy. The Administration favors action as do many others. The specific language has not yet been agreed upon, but there are many, including SCSA who will applaud early resolution of this issue. The detailed analysis by the American Farmland Trust (AFT) can provide excellent guidance.

Second, the incentive to convert highly erodible croplands back to grass, trees and/or wildlife cover also calls for a departure from present policy. The annual, short-term setasides and diversions are costly. They have not worked to lower soil loss to "T". The alternative that many land users would find attractive is a ten year conservation reserve. As Tables 1 & 2 document, based on the best data available, at least 40 million acres of cropland have need for other sustained uses. The soil savings would be significant. Again, AFT has worked for three years to develop an approach to new policy that also makes more effective use of federal farm policy budgets. Other organizations have studied the problem from their perspective and also have excellent ideas. The SCSA, dedicated to the science and art of good land use since formation in 1945, publishes the Journal of Soil & Water Conservation. The latest, a special issue, features a current topic NONPOINT WATER POLLUTION. It will be as much in demand as the special issue in 1983 on CONSERVATION TILLAGE. The reason for calling this to your attention is that the research and writing on almost every subject has been done at some time in the past. A cooperative effort will be needed as conservation and commodity policy are integrated, and there are many who stand ready to help if asked.

Although sodbuster and conservation reserve legislation has the top priority, there are other issues that need to be discussed as farm policy is developed for the future. These are:

Declaration of a national policy for agricultural conservation, requiring all federal agencies to adhere to the goals established for the conservation of topsoil.

Reauthorization of the Soil and Water Resources Conservation Act of 1977 (RCA), with some modifications.

Strengthening the Farmland Protection Policy Act (FPPA).

Encouraging the research needed to reduce the costs of production and analyzing the benefits of alternative methods of farming.

Rewarding, not penalizing the good stewards of the land, by removing any disincentives to voluntary conservation.

SCSA members THANK YOU for the opportunity to testify.

Mr. Chairman, members of the Committee, SCSA appreciates this opportunity to present a statement as you discuss the shaping of the next generation of agricultural policy. The 98th Congress had considerable evidence that past policies were not working as well as expected. There was concern in the conservation community that too little attention was given the natural resource base in carrying out farm policy. Over the years, soil, water and wild living resources have taken a back seat to crop production goals. Perhaps, because the Congress could not agree on the form of some sort of conservation legislation in 1984, 1985 presents an opportunity to enact an even more comprehensive proposal designed to solve serious soil erosion problems that continue to plague our Nation.

The desire to achieve closer linkage of commodity and conservation programs is high on the agenda of most of the conservation groups. Now, we sense, this issue is increasingly of concern to many in the agricultural family as well. Existing authorities, guidelines and procedures do need to be realigned into an integrated program for providing food, fiber, and other products from agricultural lands and waters, on a sustained-yield basis. This includes consideration of the wild living resources that depend on the farms, ranches and forests of the U.S.A. for their well being.

The 1982 National Resources Inventory (NRI), carried out by the Soil Conservation Service (SCS), during my tenure as Chief, documented that about 420 million acres are used for crop and hay production. Annually, approximately 1.8 billion tons of soil are moved by sheet and rill erosion. Wind erosion adds another 1.249 billion tons each year to the problem. That survey spotlighted about 41 million acres eroding at rate exceeding ten tons per acre per year and losing over 90 million tons of soil each year. Nearly fifty percent of the sheet and rill erosion in the U.S. occurs on about ten per cent of our cropland base, partly because the "sodbuster" type legislation is still pending. Had the federal government withheld farm program payments whenever highly erodible soils were converted from grass or trees or wildlife habitat without a proper conservation system, over the last decade the problem would not be as severe. However, that is past and we can not expect those who have qualified that land as part of the cropland base to now pay a penalty. There are other factors that pulled highly erodible soils into the cropping system. The relative economics of livestock vs. cash crop farming, the capital gains treatment, attractive credit offers, and the all out push for crop production a decade ago, all provided powerful incentives for some unwise land use conversions.

Table 1 (attached) shows acres of cropland, acres of cropland eroding above ten tons per acre per year, and the total soil loss by agricultural production regions. Table 2 (attached) reveals that every state has some highly erodible cropland, based on the land capability system. The soils in Classes I–III are generally suited for frequent cultivation. Soil in Class IV have some severe limitations for constant cultivation. Soils falling in Classes VI–VIII are generally not suited for crops. A Class with an "E" symbol designates a high soil erosion hazard.

TABLE 1.—CROPLAND ACRES AND ANNUAL EROSION

Crop production region	Million acres		Sheet and rill erosion (million)		Wind erosion (millionT/Yr)
	Total	10T/A/Yr	Total	10T/A/Yr	Total
Northern Plains	93	4.9	282	104	236
Corn Belt	92	17.3	689	434	82
Southern Plains	45	1.1	112	17	477
Lake States	44	2.6	130	51	122
Mountain	43	2.6	89	25	292
Southeast	25	3.4	140	71	3
Pacific	23	2.0	67	38	35
Delta States	22	2.0	124	45	....
Northeast	17	1.6	67	32	1
Appalachian	16	3.3	136	101	1
Other (Hawaii, Carib)	1	0.4	7	5	....
Total	421	41.2	1,843	923	1,249

Source: 1982 NRI.

TABLE 2.—HIGHLY ERODIBLE CROPLAND IN THE UNITED STATES, 1982

[In thousands of acres]

State	4E, 6E, 7, 8	4E, 6, 7, 8	3E, 4E, 6E, 7, 8	3E, 4E, 6, 7, 8
Alabama	375.3	410.4	1,162.5	1,197.6
Arizona	1.0	6.6	3.7	9.3
Arkansas	91.2	102.1	461.0	471.9
California	1,049.4	1,108.5	1,571.1	1,630.2
Colorado	4,360.3	4,548.8	5,934.2	6,122.7
Connecticut	15.1	34.5	38.0	57.4
Delaware	4.7	4.7	10.0	10.0
Florida	185.4	297.2	279.4	391.2
Georgia	388.2	416.1	865.5	893.4
Hawaii	82.2	90.4	150.0	158.2
Idaho	1,271.6	1,370.1	3,017.3	3,115.8
Illinois	1,322.0	1,356.0	3,586.7	3,620.7
Indiana	674.6	705.0	1,479.1	1,509.5
Iowa	1,963.2	2,010.6	8,156.2	8,203.6
Kansas	2,803.1	2,926.3	9,540.1	9,663.3
Kentucky	862.2	892.6	1,994.0	2,024.4
Louisiana	25.7	25.7	197.3	197.3
Maine	57.2	72.4	190.3	205.5
Maryland	201.2	211.9	438.9	449.6
Massachusetts	7.8	36.5	49.4	78.1
Michigan	285.9	404.4	1,280.3	1,398.8
Minnesota	421.2	566.3	2,124.2	2,269.3
Mississippi	538.4	543.6	1,158.4	1,163.6
Missouri	1,124.0	1,173.1	5,153.6	5,202.7
Montana	3,783.8	4,402.2	15,149.0	15,767.4
Nebraska	3,839.3	4,075.3	8,518.4	8,754.4
Nevada	93.2	194.3	104.7	205.8
New Hampshire	24.4	32.8	50.6	59.0
New Jersey	61.9	79.9	151.0	169.0
New Mexico	706.7	737.3	1,440.3	1,470.9
New York	390.9	437.3	1,374.3	1,420.7
North Carolina	508.0	559.9	1,337.0	1,388.9
North Dakota	2,388.0	2,883.4	6,853.4	7,348.8
Ohio	589.4	603.7	1,875.4	1,889.7
Oklahoma	1,897.2	1,918.9	4,709.3	4,731.0
Oregon	521.1	611.9	1,825.3	1,916.1
Pennsylvania	888.7	961.9	2,430.2	2,503.3
Rhode Island	0.0	1.0	0.0	1.0
South Carolina	90.6	117.6	291.4	318.4
South Dakota	1,613.1	1,901.0	4,234.9	4,522.8
Tennessee	881.5	918.5	1,858.4	1,895.4
Texas	2,806.4	3,041.9	13,573.9	13,809.4
Utah	397.1	432.3	716.4	751.6
Vermont	78.9	93.2	215.3	229.6
Virginia	438.1	478.2	1,027.4	1,067.5
Washington	2,412.9	2,464.3	5,729.2	5,780.6
West Virginia	321.5	347.4	530.1	556.0
Wisconsin	1,343.4	1,644.8	3,223.1	3,524.5
Wyoming	804.7	906.7	1,629.1	1,731.1
Total	44,991.7	49,159.4	127,689.3	131,857.0

Source: 1982 National Resources Inventory.

STATEMENT OF ALLEN L. FARRIS, IOWA CONSERVATION COMMISSION

Mr. Chairman, I am Al Farris, Chief of the Fish and Wildlife Division for the Iowa Conservation Commission, and Chairman of the Wildlife Habitat Protection Committee of the International Association of Fish and Wildlife Agencies. In addition, prior to appearing before the committee, I discussed this statement with the current president of the Midwest Association of Fish and Wildlife Agencies, Mr. Bill Hanzlick of Kansas Fish and Game. The Midwest Association has long been concerned about agricultural programs and their affects on fish and wildlife.

As a wildlife biologist and Chief of Iowa's Fish and Wildlife Division, I have had 14 years of exposure to fish and wildlife habitat problems and their relationship to land use practices. Nowhere has the impact of land use changes brought about by agriculture been more dramatic then in the midwest and especially in Iowa. In the intensively farmed region of Iowa, farming has virtually eliminated all native vegetation and radically reduced wildlife habitat.

Iowa is an agricultural state. In 1982, 72 percent of Iowa's 36 million acres were in cropland, and an additional 12.5 percent in pasture. By the USDA definition, 18.7 million acres of Iowa are categorized as prime or important farmlands. On the average, Iowa is number one in corn production, producing about 18 percent of the United States' corn production; number two in soybean production; number one in hogs, producing 27 percent of the nation's pork; fifth in grain-fed cattle production; second in the total value of agricultural products produced; and second in the export of agricultural products. On the other hand, Iowa has soil erosion rates among the highest in the nation. The rate in Iowa is twice the national average. The average annual rate of sheet erosion on cropland in Iowa is 9.4 tons per acre. The average soil loss on 11.3 million acres in Iowa, or 43 percent of Iowa's cropland, is 22 tons per acre per year. This year alone, Iowa is spending $8.644 million of state monies for soil conservation programs to be matched with private landowner funds. However, federal farm policy and agricultural legislation has the most important influence on soil conservation in Iowa and a tremendous influence on water quality and fish and wildlife habitat in Iowa.

You are considering the future direction of agricultural legislation. Our interest in not just narrowly focused on fish and wildlife. We recognize that farmers must be assured of a fair return on their investments, soil must be used but yet conserved, water quality must be improved, and fish and wildlife habitat must be provided. It is with these goals in mind that the following recommendations are made for inclusion in the 1985 farm bill:

1. Insure that conservation features are integrated into all commodity programs. Conservation measures have traditionally been treated as add-ons in farm legislation. Future farm legislation should have conservation practices woven into the fabric of the measures as positive features to reduce soil losses and promote wildlife habitat.

2. A broad "sodbuster" provision should be incorporated into the agricultural legislation. This provision would eliminate federal farm program benefits for the conversion of noncropland into production. These noncroplands should include riverbottom hardwood forests, wetlands, rangelands, forestlands, highly erodible hilly lands, terraces, windbreaks, riparian areas, and grasslands. It does not seem reasonable for federal incentives to be provided to add cropland to produce commodities already in excess. In fact, it seems most logical that disincentives such as loss of eligibility for federal farm program benefits should be legislated for the conversion of noncropland to cropland purposes.

3. A long-term conservation reserve program should be developed to remove the most erosion-prone lands from cropping. This program should utilize five- to ten-year contracts with adequate compensation to farmers to reflect the loss of income and the cost of establishing a suitable cover crop on these lands. Land retired from production in a conservation reserve program should be managed to reduce soil erosion, improve water quality, and provide wildlife habitat. However, programs of the last decade have failed to maximize the soil, water, and wildlife conservation benefits. Such failures have resulted because recent set-aside programs have utilized annual contracts which have forced farmers to maintain all possible future options on the land set aside. This in turn, has meant that most farmers in the midwest have typically put a light seeding on these set-aside acres late in the planting season and have then tilled this cover crop early in the fall. Set-aside acres managed in this manner have little or no value for abating soil erosion, improving water quality, or providing wildlife habitat. In the summer of 1983, fish and wildlife agencies from 12 midwestern states conducted a survey of set-aside acres. This survey was conducted primarily to evaluate the value of the wildlife habitat on these set-aside lands; however, the results of this survey have some relevance to soil and water conservation also. This survey was conducted in the states of Colorado, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. To summarize the results:

Approximately 43 million acres were set aside in 12 midwestern states in 1983.

About 20 percent or 9 million acres had no cover crop at all, and provided no soil conservation or wildlife habitat benefits.

About 37 percent or 16 million acres set aside had the previous year's crop residue and volunteer vegetation or only volunteer vegetation as a cover crop, and provided inadequate soil erosion protection and very little wildlife habitat.

About 32 percent or 14 millions acres set aside had newly seeded cover crops that provided less soil erosion benefits than expected and poor wildlife habitat.

Only 10 percent or about 4.5 million acres were in fields with established cover from the previous year, and these cover crops provided maximum protection from soil erosion and good wildlife habitat.

There are several reasons for this miserable record, but the most important cause is that recent set-aside programs have been annual programs that have been announced in late winter or early spring and have not contained tough provisions mandating cover crops on all set-aside lands. Consequently, the primary objective of the set-aside program has been met, but the program has not provided the desired linkage between commodity and conservation objectives. This linkage is desirable to: (1) correct and prevent soil erosion, (2) maintain and restore water quality, and (3) augment production and survival of wildlife while simultaneously producing the desired amounts of food and fiber.

A conservation reserve program must be developed that will make it so: (1) farmers can plan over a three, five, or ten-year period instead of one year at a time, and (2) commodity supplies are reduced by taking land out of production on a more sustained basis rather than the current situation where farmers are yanked back and forth between fencerow to fencerow production and massive annual set-aside programs.

4. Contradictory regulations often weaken or eliminate many conservation benefits. Several references to wildlife in the wheat and feed grain program are examples. In one section of the program, mowing is to be timed to benefit wildlife; but then another section requires that "weeds" are to be controlled. Many ASCS personnel interpret that as an order to mow everything prior to seed formation. In Iowa, oat seed formation and the pheasant nesting season coincide resulting in no wildlife benefits due to mowing. Several ASCS county committees interpret "weeds" very broadly. The simple insertion of "noxious" prior to weeds and better definition of noxious weeds could give the flexibility needed to increase wildlife benefits. There should be coordination among water quality, forestry, fish and wildlife agencies and other like groups.

I think these suggestions for the 1985 farm bill are complimentary and acceptable to those interested in resource stewardship and agricultural production. Thank you for permitting this opportunity to comment.

STATEMENT OF FARRIS GRAY, REPRESENTING SOUTHERN IOWA AGRICULTURAL BOOSTERS

SUMMARY

Soil conservation must be high in our national priorities. A thriving civilization cannot exist without adequate food. Federal budget support to soil conservation programs remains vital. To undercut the Soil Conservation Service and RC&D (Resource, Conservation and Development) areas by any more than an "across the board" Federal spending cut would be disastrous and destroy invaluable conservation strides made in the last 50 years. Soil conservation and profit in agriculture interface. Farmers working to remain solvent must be able to afford long-range decisions that conserve their number one resource—the land.

To the U.S. Senate Committee on Agriculture, Nutrition, and Forestry

Honorable United States Senators: It is indeed a pleasure to have this opportunity to speak to you today. My name is Farris Gray and I am the opertor of a 680 acre grain and livestock from near Bedford, Iowa. Our Southwest Iowa farm is representative of the landscape of most farms in Southern Iowa—rolling land and steep hills.

I come before you today representing both the Southern Iowa Agriculture Boosters, a non-profit organization for the betterment of agriculture in Southern Iowa and the Council of Iowa Resource, Conservation and Development Areas. The Resource, Conservation and Development Areas, commonly referred to as RC&D cover 33 of the 99 counties in Iowa. I have served as a member of this group since its organization in 1968.

This year, our nation will celebrate the 50th Anniversay of the Soil and Water Conservation Movement. This country, and especially Iowa, has made much progress since the "Dust Bowl Era". The President, through the USDA budget proposal, has proposed that federal conservation programs be severely cut or eliminated in 1986. If approved, this budget proposal would mean the loss of two-thirds of the Soil Conservation Service personnel across our state, as well as the federal cost-share and assistance programs which help fund conservation practices.

Today, 70% of Iowa's land lacks adequate conservation treatment. Iowa ranks first in the nation in the amount of soil lost annually due to water and wind erosion. . . . a loss nearly twice the allowable limit necessary to maintain our soils. In the nation, 70% of our crop lands are eroding at rates greater than permissible. [1]

We are extremely concerned about the proposed USDA Soil Conservation Service budget cuts, including the PL-566 Watershed Program as well as an important program for all of Southern Iowa, the USDA Resource, Conservation and Development Program. Both Programs are administered by the Soil Conservation Service.

As of late, there has been much talk about national security. As a Veteran proud to have defended my country during the Korean War, I believe, as the people I represent do, that one of the greatest defenses and forms of national security this nation can have is a well-protected, high-quality land base. We should take all precautions to prevent future dependence on other nations for food, fiber, and minerals. Have we not learned a lesson from our energy dependence and the vulnerability which results? Dr. Hugh H. Bennett, founder of the United States Soil Conservation Movement stated,

"Productive land is the most important and basic capital asset of all nations of important size. Good, permanently productive land is the basis of our wealth, our health, our happiness and our peace—here and abroad."

Soil Conservation work is of utmost importance to the agricultural base and economy in Southern Iowa. In 1984, 4000 landowners in 14 Southern Iowa Conservation Districts were assisted with conservation technical assistance. Conservation measures were planned on over 13,000 acres. Construction of terraces and gully control dams amounted to over 7 million dollars.

Virtually all of this construction was assisted by federal and state cost share programs—programs sharing from 30 to 50% of the total costs. A few years ago when the agricultural economy was better, approximately 20 to 30 percent in additional work was accomplished without cost sharing. [2] But even in a good economic setting, if vital conservation work, such as the construction of gully control dams and cropland terracing is to be accomplished, public assistance is necessary. The capital outlay necessary for the controlling of erosion is too great a burden for private ownership to bear alone. The reduction of business generated as a result of conservation construction activities would be a further blow to rural communities whose economies are already suffering.

The reduction of Soil Conservation Service technical and financial assistance to landowners would reduce protection of agricultural land and conservation activities by 50 to 60 percent. [3] Not only the cost share assistance, but the availability of technical assistance would not meet the needs of local communities. The watershed, (PL-566) and the Resource Conservation and Development (RC&D) programs in Southern Iowa are very significant to community well being, and economic development. The RC&D projects have explored and expanded woodlands and provided technical assistance to small communities, helping them solve critical problems.

Examples of RC&D assistance in Southern Iowa include:

Establishment of rural water

Protection of several municipal reservoirs with permanent soil conservation practices.

Procurement of a state forester for my RC&D Area

Establishing a Beef Production Testing Program

Establishing permanent flocks of Giant Canadian Geese

Organizing and developing alfalfa hay associations

Promotion of warm season grasses in pasture rotations

Organizing multi-county no-till seminars and field demonstrations

Organizing multi-county study committees to determine ways of converting public buildings and factories from fossil fuels to wood chip technology

Securing funding for the largest and most modern fish hatchery in Iowa

Our RC&D Areas have secured millions of dollars in funding for: senior citizen housing; new roads; bridge replacement; community buildings, including schools, hospitals, community centers, law enforcement complexes; and railroad tracks so that industries in a town might have access to a main line.

RC&D Areas generate 10 to 20 times the yearly federal cost of operating their offices. [4] The Chariton Valley RC&D will often generate 40 to 50 times its federal operating expenses. In Southern Iowa, these programs have created hundreds of part-time and permanent full-time jobs in depressed economic areas.

The PL-566 Water Program has been very effective and needs to be continued for the development of resources and the protection of resources in the rural areas of Iowa. Southern Iowa is dependent upon surface water supply. Erosion control above the water supplies is critically important to human, livestock and industrial needs. Thirty-seven watershed areas are organized. Twelve watershed projects have been completed with 276 dams built. Seven projects are currently under construction. These projects have 77 dams to build. Local sponsors have acquired landrights and have made all of the local commitments and investments needed to proceed with their project. These 77 dams are awaiting financial construction assistance and cost share assistance. [5]

The major watershed projects include flood control dams with water supply in Adams, Union and Decatur Counties. The Walter's Creek, Twelve Mile Creek and Little River main dams provide potable water supplies to meet domestic needs for the first time in Southern Iowa history. Previous supplies have been inadequate, unsafe, and undesirable in both quantity and quality.

It is important to understand that watershed projects are aiding in the development of rural areas. Protection from flooding and an adequate water supply provide necessary incentives for the expansion of business and industrial activity. This expansion brings more goods and services, more jobs, and a more stable community to rural residents.

Soil Conservation programs are vital. To undercut the program by any more than an "across the board" Federal spending cut would be disastrous and would destroy the base program that the State of Iowa builds upon. Iowa is currently providing equal or greater dollar assistance to landowners than the federal program; yet it is the Federal monies that the State builds upon. Undercutting the conservation effort by reducing Federal assistance places an unfair burden upon State, County, and Local units of government, as well as on private landowners. This not only effects local economies, but it also threatens water quality and increases erosion hazards rather than arresting them.

As a result of the organized Soil Conservation District activities over the past 40 years, a noteworthy conservation ethic has developed across Southern Iowa. A reduction in the Federal base for these programs will have a tremendous negative impact on local interest, and in so doing, reverse a valuable "partnership spirit" that has resulted from this nation's conservation efforts. We ask tht you pay close attention to the items relating to soil conservation in our country. It will be your decision that prevents a blanket reduction of Federal spending from halting conservation efforts and in so doing destroy invaluable conservation strides that have been made in the last 50 years.

In our nation's trend toward bigger and "better" farming, it is imperative that we continue to strive toward the wise and efficient use of the varied landscape our rural areas have to offer.

In order for good conservation practices to be implemented, there must be a PROFIT in agriculture. With no profit in agriculture, we witness the mining of land for every dollar possible in order to have a cash flow.

We are hearing a lot about the debt restructuring and loan guarantees, but it does no good to extend loans unless Agricultural Policy is changed to get a reasonable profit for what is produced.

It has been proven to us that the present 1981 Farm Bill has resulted in a desperate situation for the farm economy. The basic problem is the fact there is no profit.

In USDA Bulletin No. 490, dated March, 1985, net farm income and asset values from 1940-1985 are shown: (adjusted to 1967 dollars) [6]

[Dollars in billions]

Year(s)	Net income	Return on assets (percent)
1940-49	$20.5	13.0
1950-59	15.5	7.5
1960-69	12.9	5.0
1970-79	15.2	4.6
1980	8.6	2.1
1981	11.4	2.8
1982	7.7	2.1
1983	5.4	1.5

Does this not explain why we have a farm crisis? From 1940 to 1983, farm income went down 74 percent and investment in assets went up 223 percent when adjusted to 1967 dollars. Incomes declined over these years even though we experienced rapid increases in exports and production.

On March 7, 1985, Senate hearings for the 1985 Farm Bill began. Agriculture Secretry John Block conceded that he could not name a farm group or farmer who agreed fully with the White House Proposal, with its free market orientation. Block also agreed that the administration's proposal would reduce farm income over the next several years, promising that by the end of the decade farmers would prosper when we become more competitive in export markets.

However, a Department of Agriculture tabulation provided by Secretary Block indicated that prices for corn and other basic grains would not be much higher in 1991 than now. In the absence of traditional set-aside and price support programs, commodity prices would fall with corn dropping to $2.18 a bushel by 1986-87 and soybeans to $5.39. This compares with support prices of $2.55 for corn and $5.05 for soybeans this year. [7]

Agriculture is already undergoing an agonizing readjustment period. To impose a second readjustment on top of that, to reduce price supports and income subsidies while agriculture is already in its biggest readjustment since the Depression, would be cataclysmic—with the most vulnerable victim being the structure of the family farm. We must ask ourselves, how many of our families will still be around to enjoy the Administration's "promised land" to come?

The only way we are going to get a fair profit back into Agriculture is to get supply in line with demand. This could be accomplished through mandatory production controls, higher loan rates and a grain reserve program with the loans being repaid to government with interest. This program would be the least cost to the government, as the only expense would be administering the program. In recent history, we have tried to get demand in line with supply and as is obvious, it has not worked. We cannot name another industry that does not match supply with demand. A parity program would allow for a profit in agriculture. This must be done now, not five years down the road, for then it will be too late for a large number of some of this nation's best farmers who are struggling for the survival of their way of life.

The American public is spending the smallest percent of their income on food in history. Why must this be so when the farmer's cost of production has continued to increase? With the increase in food cost needed to maintain a fair farm price, U.S. food costs would still be far below those of any other country in the world.

The Food and Agriculture Policy Research Institute (FAPRI) Report [8] prepared by the University of Missouri and Iowa State University analyzes four farm programs:

1. Basic continuation of the 1981 farm bill: See Appendix B: "B": net income near present level
2. Market option with minimum government intervention: See Appendix B: "M": 30% reduction of farm income
3. Expanded export option: See Appendix B: "E": 1-3% increase over the 1981 base
4. 80% parity with marketing quotas: See Appendix B: "P": 196% net farm income increase

Upon looking at the projections of the farm policy options in the FAPRI Report, it is clear that the only option allowing for the continuation of the farming sector is number 4 "P" with its Controlled Production and Parity Options. We must have a reasonable profit in agriculture.

Research done by Iowa State University reveals that when Net Farm Income increases, the main streets of Rural America share in the benefits. [9] We are witnessing the inverse of this theory in my home town of Bedford. A net loss of 22 businesses in the past three years is a clear reflection of a suffering agriculture economy—an agricultural economy suffering from a no profit malignancy—a malignancy which we realize is within the power of our policy makers to safely remove or treat.

My wife and I operate a medium sized farm which grosses $125,000–$175,000 per year. I am the only full time worker. This farm size is in a group of 12% of our nation's total farms, and is responsible for 69% of total U.S. sales. [10] It is these medium sized farms that are having some of the most severe difficulty under present economic policies. We purchased the majority of our land between the years of 1956 and 1972. Our land was purchased before the large increase in land prices, unlike the image fostered by those wishing to camouflage a severe agricultural economic problem by focusing on a FEW speculative agriculture investments made by a FEW farm entrepreneurs.

We have not invested in a lot of new machinery or facilities. Due to low commodity prices, record high real interest rates (cost of money minus inflation rates) and some unfavorable weather conditions, our net worth has decreased nearly 70% in the past 4 years. Just one or two more years with this rate of decline will find us insolvent. In 1977, I was proud to be named as one of Iowa's five Master Farmers. This title was representative of good management practices, and now, nine years later we struggle to reverse the direction of our farm toward insolvency—a direction not caused by poor management, as many will have you believe, but a direction resulting from the Federal Reserve's tight monetary policy, the 1981 Tax Bill's resulting massive budget deficits, and the 1981 Farm Bill.

We are not the exception, we are representative of rural America. We must have a profit in Agriculture, or the way we know farming and the way you know farming will cease.

It will not be in the public's best interest to have corporate agriculture involved in the total food chain. Large corporations will not do what is in the best interest of the public—as their conservation priorities have shown. Corporate agriculture has not been interested in protecting one of the nation's greatest assets, a quality top soil that is the envy of the world. I would welcome the opportunity of showing you the Taylor County farms which are owned by absentee land owners and corporations. On such farms, you would witness the washing away of topsoil at the rate of 20 tons per acre each year. Are such practices in the best interest of the public?

Land is a great source of new wealth for our national economy. In order for us to create new wealth, the value of the product has to be greater than the input cost.

In the interest of the National Economy and Public Welfare, it is necessary to have a profit in agriculture and to sustain SCS and the RC&D, so that our descendents will have an ample food supply, and efficient development of resources.

I am a steward of the soil. It has been my goal in life to leave the soil as good or better than it was when I found it. I, and the farmers I represent, cannot do it alone—especially if there continues to be no profit in our industry.

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8. Brandt, Jon, S. R. Johnson, William H. Meyers, Abner W. Womack, and Robert E. Young II, "Options for the 1985 Farm Bill: An Analysis and Evaluation", FAPRI (Food and Agricultural Policy Research Institute) Staff Report, University of Missouri, Columbia and Iowa State University, FAPRI #1-85, p. 36.
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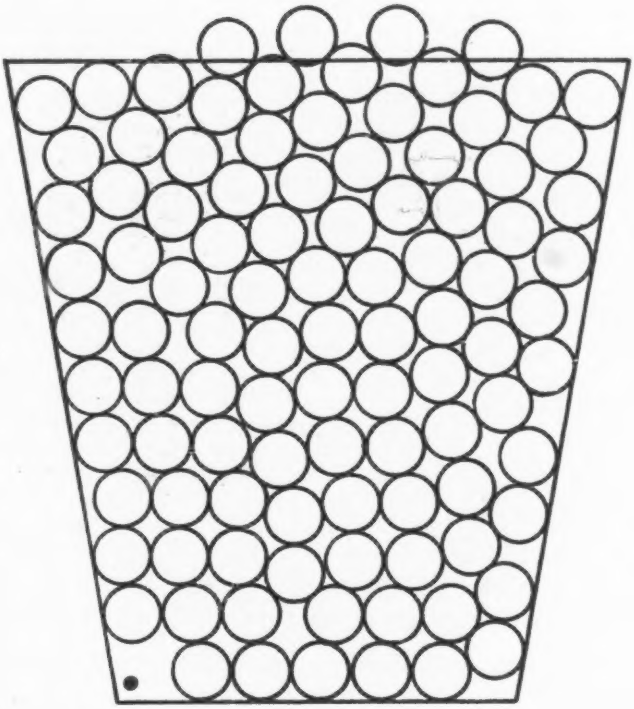
APPENDIX A

Where soil conservation fits in the budget.



The 100 marbles represent the entire United States budget.

Would 1 marble be too much to spend on soil conservation?

Not 1/10 of 1 marble, only a B-B, is now being spent on such programs.

APPENDIX B

FAPRI POLICY PROJECTIONS, FARM INCOME AND GOVERNMENT COST: THE 1981 FARM PROGRAM CONTINUATION (B), THE MARKET OPTION (M), THE EXPANDED EXPORTS OPTION WITH BASELINE PARAMETERS (E), AND 80 PERCENT PARITY PRICES WITH MARKETING QUOTAS (P)

Year	Program Option	1983	1984	1985	1986	1987	1988	1989	1990
Total Farm Cash Receipts	B	138.72	143.13	150.75	156.08	159.42	165.07	169.42	175.10
	M	--	--	--	155.56	156.40	159.78	164.25	171.93
	E	--	--	--	156.72	160.57	166.25	171.18	177.76
	P	--	--	--	157.68	200.45	202.99	211.37	220.38
Direct Government Payments	B	9.29	8.70	5.12	5.73	4.76	3.34	3.29	4.28
	M	--	--	--	0.00	0.00	0.00	0.00	0.00
	E	--	--	--	5.37	3.80	3.18	2.31	3.67
	P	--	--	--	4.48	0.00	0.00	0.00	0.00
Realized Gross Farm Income	B	163.16	167.93	172.74	179.58	182.61	187.68	192.88	200.51
	M	--	--	--	173.36	175.02	179.24	184.63	193.16
	E	--	--	--	179.86	182.84	188.74	193.78	202.72
	P	--	--	--	178.76	217.75	220.89	230.07	241.51
Net Farm Income	B	16.10	31.81	25.73	25.64	24.58	20.04	22.39	25.66
	M	--	--	--	18.08	16.81	14.67	16.60	15.63
	E	--	--	--	26.02	24.90	21.01	22.75	26.97
	P	--	--	--	45.83	74.03	74.32	75.31	81.15
Net Farm Income (1972$)	B	7.48	14.25	11.03	10.41	9.57	7.44	7.89	8.54
	M	--	--	--	7.34	6.54	5.44	5.85	5.20
	E	--	--	--	10.57	9.69	7.80	8.02	8.98
	P	--	--	--	18.61	28.82	27.58	26.54	27.02

APPENDIX C

VALUE OF OUTPUT

	1986			1989		
	A	B	C	A	B	C
1. Agriculture	9,498.11	9,279.68	12,131.28	10,091.3	9,957.66	13,401.2
2. Ag/Bus	1,062.6	1,038.1	895.7	1,128.9	1,114.0	989.4
3. Retail	895.5	874.9	1,143.8	951.5	938.8	1,263.4
4. Service	2,791.6	2,727.3	3,565.5	2,965.0	2,926.6	3,938.4
	14,247.8	13,920.1	17,736.3	15,137.7	14,937.1	19,592.4

A. 1981 Farm Program Continuation
B. Market Option
C. 80% Parity Prices with Marketing Quotas

STATEMENT OF R. NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, AMERICAN FORESTRY ASSOCIATION

Mr. Chairman. Members of the Committee . . . I am Neil Sampson, Executive Vice President of the American Forestry Association, a private conservation organization representing some 40,000 members. We are pleased to have the chance to discuss this important topic with you today.

At the outset, let me make a few general observations. First, soil erosion in America is a serious problem, despite the rigor with which many analysts have been trying to explain it away in recent years. The 1982 National Resource Inventories conducted by SCS indicates that almost one acre out of every four that is cropped—97 million acres out of 421 million—are suffering erosion at rates of more than double the tolerable loss limit. While SCS has still not developed the information that would let us compare 1982 erosion data with 1977 data to see what has changed in the last five years, the simple fact that nearly 100 million acres is suffering erosion at average rates of over 21 tons per acre per year is enough to convince most observers that we do, indeed, have a problem.

Those lands face an uncertain future if appropriate action is not taken, and soon. If topsoil damage proceeds too far, converting many of them to grass and trees is the only chance for any productivity in the future, and even tree and grass growth rates will be compromised if the topsoil is too badly damaged. In the meantime, of course, the soil erosion, water pollution and other problems will continue.

What we know, of course, is that the Nation faces a diminishing supply of unused high quality potential cropland upon which to depend as the current land is abused into unproductive status. We added some 8 million acres of cropland to the inventory between 1977 and 1982, it appears, but 6.5 million acres was, it appears, land with a serious erosion problem according to SCS classifications.

A review of the available information and analyses from the 1982 NRI suggests that, for the first time in three decades of these surveys, the average quality of the cropland being farmed by American farmers is going slightly downward. If that is the case, and it begins to become more evident over the next decade, it will be a strong signal that this Nation's ability to ignore the conservation needs of its vast agricultural resource base is at an end.

In this 1985 Farm Bill, the Congress has the broadest public concensus in memory agreeing to the need to improve both the economic impact of farm programs on farmers and the conservation impact of farm programs on the land.

It would be a mistake to delude ourselves into thinking that a neatly designed commodity program / conservation program coordination effort will solve the soil conservation problem. Even if that laudible goal could be obtained, it would still be necessary to have a national effort combining research, education and technical assistance to America's landowners. It would probably still be cost-effective to have cost-sharing to help farmers with the more expensive and difficult efforts such as preventing nonpoint source water pollution. These programs will be vital in the future no matter what Farm Bill reforms are made, and no matter what Mr. Stockman's Office of Management and Budget claims.

For example, a combination of changes in technology and economics has resulted in just about all of the windbreaks and shelterbelts being removed in the midwest and Great Plains. As a result, significant wind erosion is occuring; in many places creating more serious soil damage than what is caused by water runoff.

But the Farm Bill reforms are absolutely vital if we are to hold out any hope for the success of the soil conservation programs. No program of soil conservation—including one based on strong regulations—would hold up against the anti-conservation incentives that have been so prevalent in farm programs over the years. Leaving aside political practicality for the moment, this Congress could mandate the strongest possible soil conservation rules in the Congress, but if you leave the Farm Bill alone and the federal tax code alone, all you will accomplish is converting most of the Nation's honest farmers into scofflaws. The economic pressures to farm the wrong land, and to farm the land wrong, would simply be too great to overcome.

So we urge you today to assure that there is a significant improvement in the coordination between conservation goals and commodity program operations in this 1985 Farm Bill. That won't solve every problem, to be sure, but it is a vital first step in the process.

As we see the Farm Bill challenge, it can be divided into several parts. First would be elimination of the current tendencies for farm programs to provide incentives or help underwrite the risk when farmers cultivate marginal or highly erodible lands. This has been the subject of intensive Congressional study for the past two years, and the so-called "sodbuster" bills have been designed to close down this unacceptable outcome of public program expenditures.

The debates have been hot and heavy, and will continue this year, no doubt. Some will argue for a strong version that penalizes the farmer as well as making the land itself ineligible, some will argue for tighter definitions of the land to be considered unsuited for cultivation, and there will be other important issues for your committee and the Congress to consider.

All we would ask, Mr. Chairman, is that the Congress not lose sight of the basic policy goal in the heat of arguments over details. The basic policy goal is to serve notice on America's farmers that the federal government knows the difference between a productive crop soil and a pile of wind-blown sand, and it intends to manage publicly-funded programs in light of that difference. Farmers remain free to farm any land they wish to, but federal supports and subsidies are going to finally make use of nearly a century of scientific soil science work and recognize that some lands are worth the investment; others are simply problems if they are not left in natural vegetation.

We have lost thousands of acres of productive range and forest lands in the two years while Congress has been debating this sodbuster bill. We started out with a broad array of agricultural, conservation, and environmental groups supporting it. The Administration supported it. Both political parties, in both Houses of Congress, supported it. And we have haggled for two years over details and the need to gain maximum political advantage. Meanwhile, the throttles were running wide open on the tractors, making sure that as much acreage as possible got plowed out ahead of passage so that the "grandfather clause" would protect the owner's right to farm the government in the future. It is high time, Mr. Chairman, that we put this to rest, and I would hope that can be a top priority in this Farm Bill.

With the sodbuster language enacted, so that developers can not create new problems faster than old ones can be addressed, there will still be the need to face up to that 100 million acres that is probably going to need to be converted to grass or trees if it is to have a productive economic future in any phase of agriculture. Here, it is important to consider the proposals for a long-term conservation reserve such as the one that was proposed in H.R. 3457 in 1984.

Others will testify today about the evidence that such a reserve would be a good economic bargain. There has never been any doubt that it would be a good environmental bargain. And a program similar to the one in H.R. 3457 has the added advantage of being a good supporter for some rural economies that have seen local farms grow into corn and bean export factories with little or no local economic impact. Encouragement of hay, pasture or forestry crops on marginal cropland could once again create some of the positive localized economic impact that neither large export-crop monocultures, or straight government land retirement payments could accomplish.

We encourage the Committee not only to press forward vigorously with the conservation reserve idea, but to retain the policy thrust of H.R. 3457 and create a program that assists farmers with the transition from erosion-prone row crops to soil-conserving tree and grass crops. This will harness the private market, protect local economies, make federal dollars much more effective, and allow the most soil conservation to be achieved with the least public and private cost.

Our reading of the forestry community, Mr. Chairman, indicates there is some split feelings on this issue. On the one hand, support for improved soil conservation on marginal lands, and the encouragement of productive forest management on these lands, seems broad. On the other, there is some opposition, particularly in the forest products industry, to the idea of government encouragement or subsidization of tree planting. As I read the sense of our organization, however, we come down solidly in support of the conservation reserve, and the idea that trees should be an important part of it where they are the best-adapted and most economically feasible crop.

We are, in many parts of America today, harvesting the trees planted in earlier land conversion efforts. Those trees are part of a timber supply that looks ample today, and for some years to come. But we are convinced that it is timely to start new crops, as well. Plantings are not keeping up with harvesting in some of our most important timber producing areas, and this is a continuing concern of the forest conservation community.

In addition, we feel the conservation reserve is an excellent tool to improve the chances that good forest management will become a viable option for small private land owners. These owners, who today find many obstacles in their way as they try to nurse a tree crop for the many years required before harvest, remain the main bulwark of a diversified, stable forest future for much of the Nation. We think a program to keep them interested and involved in good forestry programs is a wise forest and rural development policy, as well as a wise soil conservation policy.

Mr. Chairman, we appreciate the opportunity to bring these views to the Committee today. If we can respond to any questions, we would be happy to do so.

STATEMENT OF JOHN BETHEA, REPRESENTING NATIONAL ASSOCIATION OF STATE FORESTERS

Mr. Chairman and Members of the Committee, my name is John Bethea. I am State Forester of Florida, and Co-Chairman of the Legislative Committee of the National Association of State Foresters (NASF).

The NASF is composed of the directors of the state forestry agencies of each state. The primary responsibility of their agencies is to conduct forestry work for the public good on state and privately-owned forest land in their respective states. In cooperation with private, federal and other state agencies, organizations and individuals, the State Forester works to direct and strengthen all forestry programs within that state.

The NASF believes that there are no more important issues to be considered for the 1985 Farm BIll than the subject of today's hearing, which is a "review of soil and water conservation issues and legislative proposals for the 1985 Farm Bill."

The NASF strongly recommends that the Farm Bill include the following.

Conservation Reserve Title—Purpose: To establish and maintain protective vegetative cover (including trees) or other designated practices on erosion-prone land regularly used for production of crops.

Agricultural Forestation Title—Purpose: To plant and maintain vegetative practices including but not limited to windbreaks, shelterbelts and living snowfences to conserve soil and water in order to prevent depletion of natural resources and to maintain long-term agricultural production.

There are a number of reasons why the NASF believes these programs are needed now. They include:

Continuing pressure to do something about soil erosion

Continuing pressure to take land out of agriculture production, and reduce the surplus agricultural commodities in order to increase net income for farmers and develop a healthy agricultural market

Pressure on the Congress to reduce the debt burden on farmers

Some disenchantment among environmental groups about traditional agricultural practices

A need to move back to profitability in farming which is important, not just to farmers, but to all of us

A need to expand long-range timber production.

Forestry can make a contribution in these areas by assisting in the reduction of soil erosion, taking agricultural land out of crop production, developing the resource that can help pay off debts and providing conservation plantings which aid wildlife and water quality. Forestry, through tree planting and management of existing trees, can help increase net returns to landowners and protect the resource base on which we all depend.

The NASF has developed a proposal for a Conservation Reserve Program on erosion-prone and marginal crop land, and an Agricultural Forestation Program for conservation. We will provide the Committee with copies of these proposed programs as possible titles in the Farm Bill. The NASF believes it is in the national interest to develop expanded forest resources for domestic use, and to increase export opportunities in order to achieve a more favorable balance of trade.

Trees are a crop and a source of needed raw material. Forestry has become a viable economic component of many farm operations and needs to be recognized and supported. Recent forest inventories and assessments reveal a deficiency of preferred species in some parts of the country which will lead to shortages in the future. Additionally, forest cover is more permanent than other vegetation and it is important in preventing and reducing soil erosion, improving water quality and contributing to better wildlife habitat.

There is no more compelling resource priority than the protection of the soil that we as a nation depend upon, either directly or indirectly, for our food. Also, profitability must be restored to agriculture if it is to survive. Clearly, input costs must be reduced for this to happen. Forestry has a significant role in both of these arenas.

The 1982 National Resources Inventory showed that nearly one-quarter of the Nation's crop land was eroding at an average rate more than four times higher than the currently accepted tolerance level. Of significance is the fact that this inventory, as did the one before it in 1977, showed that a major part of the erosion problem occurred on a relatively small percentage of the total crop land acreage.

For sheet and rill erosion for example, 5 percent of the acreage was responsible for 52 percent of the problem. These highly erosive lands were also the ones that were marginal for crop production. Because erosion problems are concentrated, they are amenable to control by focused conservation programs. This is also the reason why a conservation reserve program directed at marginal lands is so necessary.

Not only is the direct loss of soil a concern, but also the attendant offsite effects are important. In many areas of the Midwest, erosion silt, with its attached fertilizers and pesticides, is the most widespread and serious pollutant affecting water quality.

If highly erosive soils were placed in a conservation reserve and planted in trees, erosion rates would fall dramatically. Soils that are protected by trees and other kinds of permanent cover have minimal erosion rates. In addition, dollars would be saved for the Treasury by not being spent to subsidize the crops that would otherwise be produced on these marginal lands. The trees would provide other benefits as well-increased habitat for wildlife and improved water quality.

There are other areas where forestry can stop soil erosion and simultaneously reduce input cost for farming. Wind-caused soil erosion is a major problem in the Great Plains. A system of properly designed and appropriately spaced field windbreaks protecting the land could reduce wind erosion to virtually zero.

Again, there would be other benefits as well. It is clear from research conducted around the world that crops protected by windbreaks yield better, on the average, than those that aren't. Consequently, a farmer can produce as much or more on smaller fields protected by windbreaks as he can on larger unprotected fields. In addition to controlling soil erosion, the windbreaks lower input costs because less seed, fertilizer, fuel, irrigation water, etc., are needed for the smaller field.

Input costs are reduced by windbreaks in a variety of other ways. All of the following are supported by research:

Farmstead windbreaks in the Great Plains of proper design can reduce winter heating costs by 25 percent. Over a broader geographic area, the savings range from 10 percent-25 percent.

Under typical winter conditions in the Midwest, feed costs can be 20 percent less to maintain a beef animal protected by a feedlot windbreak or living barn, than an animal in the open.

Cows protected by a windbreak produce 8 percent-25 percent more milk per day, depending on the breed and on the windchill, than unprotected cows.

Herds protected by living barns during calving have a 2 percent increase in live calf crop versus unprotected herds.

Living snowfences can produce major savings to individuals and public entities. Studies conducted in Nebraska, Colorado, and Wyoming show savings ranging from $1,000 to $3,520/mile/year if living snowfences are used instead of conventional slatted wooden snowfences or large wooden barriers.

The agricultural forestation proposal for windbreaks, shelterbelts and living snowfences would provide cost shares, annual payments and technical assistance. They would require participation of at least 10 years.

The NASF maintains that lower costs diverting acres through tree planting is obtainable. There is a substantial lower cost of establishment for trees than for grass, and the Soil Bank Program in the late 50's and early 60's proved that there is almost a 90 percent retention rate of trees after establishment. High retention rates are not restricted to the Soil Bank Program; all tree planting programs, including the federal FIP and ACP Programs, have similar accomplishments. After 10 years the trees begin to pay for themselves and are less likely to be plowed under for crop production.

A recent report showed that after 15–20 yeras, 89 percent of the Soil Bk tree plantings are still in pine timber. I cannot emphasize enough the success of the tree planting section of the Soil Bank Program. It is also important to understand that this tree planting should be directed at highly erosive acres, not good agricultural land.

The Conservation Reserve Program is estimated to affect approximately 20 million acres at a cost of $900 million per year. The tree planting program could be phased out after the 10th year and 90 percent of the plantings would continue to protect our soil for the foreseeable future. This might be compared to the cost of the PIK Program, which cost a total of $9 billion for one year to divert 75 million acres.

The State Foresters believe that forestry can play a major role in solving some of the problems in agriculture. However, there needs to be some incentive for the farmer to set aside land and plant trees on it or to establish windbreaks around fields, farmsteads, and feedlots, because trees don't produce their benefits overnight—they are a long-term investment that pays its returns after a period of time has elapsed.

Incentives could include payments for land set aside; cost sharing for the establishment and maintenance of tree plantings; technical assistance to landowners; timber crop insurance; and other incentives to compensate the landowner for the period after planting, but before the conservation benefits begin to be realized. The State Foresters believe it is in the national interest to conserve our soil resources and that to protect this interest, there is a federal responsibility to support conservation programs with public funds.

These are difficult times, not just for agriculture, but for the Nation. Nevertheless, our soil and water resources are the underpinnings of our future and the National Association of State Foresters believes that it is appropriate to include a Conservation Reserve Title and Agricultural Forestation Title in the 1985 Farm Bill. We will work to support programs that will be responsive, both to the current needs of agriculture and to the long-term needs of the Nation as well.

Thank you for the opportunity to participate in the hearing today.

STATEMENT OF ROBERT J. GRAY, DIRECTOR OF POLICY DEVELOPMENT, AMERICAN FARMLAND TRUST

Mr. Chairman, members of the Committee, I appreciate the opportunity to testify today.

The American Farmland Trust is a private, nonprofit organization dedicated to seeking solutions to conserving our soil, protecting our Nation's agricultural land base and promoting farming opportunities.

AFT will celebrate its 5th anniversary on August 15, 1985. In the time since its incorporation in 1980, the organization has enjoyed a rate of growth which reflects increased public awareness of the need to protect America's agricultural resource base, and confidence in the private sector, "middleground" approach which has been developed by AFT. The support of foundations, corporations, and more than 32,000 individual members nationwide has enabled our professional staff to pursue a three-part program which emphasizes (1) public information about the extent and consequences of agricultural land loss due to conversion and soil erosion, (2) technical and advisory assistance to governments and private organizations in the development of policies and programs for the retention of prime agricultural lands, and (3) demonstration of open market "conservancy" techniques for the protection of individual farms and ranches which are threatened with conversion to non-agricultural uses, or loss of soil due to erosion.

Working from our offices in Washington and field offices in Ohio, Pennsylvania, California, North Carolina and Michigan, the AFT staff has travelled to thirty states in response to requests for assistance, and has helped to protect thousands of acres of threatened farm and ranch land.

My purpose in testifying today is to discuss with you in detail a soil conservation reserve program. As you are well aware, Mr. Chairman, the purpose of the reserve is quite simple: to reduce the production of crops like wheat, soybeans, cotton, corn and other feed grains which are now in surplus and are likely to remain in surplus over the next five years, by retiring erosion-prone cropland through the use of long-term contracts. Under these contracts, USDA will pay rental fees to qualifying farmers to convert erosion-prone croplands to sustainable uses. The conservation reserve will work hand-in-hand with a strong sodbuster policy to make farm programs more manageable and more efficient. It will also enable us to formally encourage the use of land within its natural capabilities.

We at the American Farmland Trust have worked hard over the past three years to develop these proposals in detail, from their policy implications to the administrative procedures that will be necessary to implement them. Throughout our work, and especially in the past 6 months, we have worked closely with many other farm, conservation and environmental groups. Of course, I cannot speak on behalf of these groups, many of whom will testify later today. However, I can tell you that we have succeeded in building a solid consensus on most aspects of the conservation reserve and sodbuster policy. These groups include:

—The National Audubon Society
—The National Association of Conservation Districts
—The National Wildlife Federation
—The Soil Conservation Society of America
—The Sierra Club

—The Natural Resources Defense Council,
—The Wildlife Management Institute
—The American Forestry Association
—The Environmental Policy Institute
—The National Governor's Association
—The National Association of Counties
and many other groups across the country, who collectively represent millions of people concerned with soil conservation problems. These groups are committed to seeing that any Farm Bill Legislation passed by the Congress in 1985 has strong, effective conservation provisions.

In addition, most of the major farm groups are now on record as supporting a conservation reserve program and sodbuster policy at least in principle.

Today, I will confine my remarks to the conservation reserve. My colleague Ken Cook will elaborate in his testimony on the details of the sodbuster policy.

First, I would like to discuss key features of the soil conservation reserve program as we envision it. Then I would like to review our estimates of substantial Treasury cost savings for a 30 million acre conservation reserve.

KEY PROVISIONS OF THE PROPOSED SOIL CONSERVATION RESERVE

Eligible land.—Any erosion prone cropland planted in one of the 8 major program crops for 3 of the past 5 years as of the date of enactment of the bill would be eligible for the conservation reserve. Those crops include wheat, corn, sorghum, barley, oats, rye, soybeans and cotton. Erosion prone cropland would be defined on the basis of its potential for water and wind erosion. The potential for erosion will be determined through the use of the Universal Soil Loss Equation and the Wind Erosion Equation.

We estimate about 45 to 50 million acres would be eligible for the conservation reserve under these criteria.

Bid system for determining rental payment rates.—The most cost-effective, equitable way to determine per acre payment rates for the reserve is for farmers to offer bids for eligible land. The experience with whole farm bids under the PIK program indicated that such bids will tend to reflect the productivity of the land being offered for the reserve. As I will note later, this will result in more efficient, less costly government crop programs.

In accepting bids for highly erodible land, USDA should develop guidelines for giving priority to lands of special ecological importance, including land adjacent to wetlands, contributing to serious off-site damages, and so forth.

Rental payments.—Can be made in cash or in kind, according to the contract provisions agreed to by the farmer and the Secretary of Agriculture. Annual rental payments will include the start-up cost of establishing permanent cover of grass or trees.

Contract provisions.—Conservation reserve contracts would be for a 10-year period.

Cropland placed under conservation reserve contract could not be used to satisfy requirements for set-aside in annual programs. At the end of the contract period, or if the contract is terminated prior to the end of the contract period, the land in the reserve would be subtracted from the total base acres of the farm of which it is a part and made subject to the sodbuster policy. In addition, farmers participating in the reserve would be prohibited from adding any highly erodible land to their base acres on farms they own or have an ownership interest in.

Haying, grazing and forest use could be made of land in the reserve, subject to certain restrictions to enhance the value of conservation reserve acreage as wildlife habitat. Higher bids could be considered if the land is devoted solely to wildlife uses.

Violations of the contract leading to its termination by the Secretary would result in the requirement for the farmer to repay with interest all reserve payments made to the farmer to date. Again, such termination would automatically subject the land to the provisions of the sodbuster policy.

Initial county-level cap on conservation reserve.—To prevent large, disruptive land use changes, not more than 25 percent of cropland base acres would be permitted to enroll in the reserve in any one county unless the county committee petitioned to have this acreage cap lifted.

Payment limit.—A limit should be placed on the amount of payments any individual farmer could receive through conservation reserve contracts.

Now I would like to discuss the savings in farm program costs we anticipate through the conservation reserve program. We anticipate three general types of savings. It is my understanding that the Senate Budget Committee has set a goal of reducing farm program costs by $8 billion over the next three years. The Conservation Reserve program proposed by the coalition described earlier can help the Agriculture Committee achieve this goal.

First, deficiency payments to farmers would be reduced substantially because of the price-enhancing effect of retiring at least 17.4 million acres of wheat, 10.5 million acres of feed grains, including soybeans, and 2.1 million acres of cotton over the next few years.

Second, direct diversion payments to farmers also would be reduced, because the conservation reserve would retire erosion-prone land on a lowest-bid basis. We're substituting diversion payments—which are pegged to average yields and set at the national level now—for conservation reserve bids, which will be pegged to the productivity of the land farmers actually retire. Third, direct storage payments made through the Farmer Owned Reserve (FOR) will be reduced because there will be less need for government-subsidized, farmer-held stocks. Now let's look at these cost estimates in somewhat more detail.

THE COST OF A 30-MILLION-ACRE CONSERVATION RESERVE

The American Farmland Trust proposes that up to 30 million acres of farmland that is especially vulnerable to erosion damage be entered into a ten-year land reserve.

The cost of such a program is estimated below in the context of the expected performance of U.S. agriculture—production, consumption, and prices during the five years, FY 1986-90.

Without attempting to predict these economic events, they are projected from the current crop year through the life of the 1985 farm bill. The projections are based on estimates of domestic and international economic conditions, assuming first that current policy in unchanged, and then that a ten-year cropland reserve is implemented. Comparisons of economic performance of the agricultural industry and the cost of selected farm programs are the basis for evaluating the cost of the long-term reserve.

The analysis focuses on eight major crops: wheat, corn, sorghum, barley, oats, rye, soybeans, and cotton. It begins with an examination of world and regional supply and demand estimates for each commodity, and from these, U.S. export sales are projected. Domestic consumption trends are similarly projected on the basis of income and population trends, but include adjustments for recent developments, especially in industrial and livestock feed use. Production is based on trends in area and yield, constrained by specific assumptions about policies and programs.

> Domestic use of cereals, oilseeds, and cotton in the United States is based on consumption levels during 1980-82 augmented by responses to income and population growth over time, with income elasticities based on estimates published by the Economic Research Service, USDA.[1] Industrial use of corn and other grains is projected on the basis of recent trends and GNP growth rates as well as national policies.
>
> Feed use of grains and oilseed meals is based on estimates of animal product consumption, with feed and meal use ratios assumed constant during the next five years.
>
> Seed utilization is projected on the basis of the area sown, assuming seeding rates that prevailed during 1975-82.
>
> Export demand estimates are derived from supply, use, and trade projections for each region of the world, and depend largely on world economic and population growth and national policies.
>
> Crop production estimates depend on the size of the cropland base, technology (as reflected in yields), and policies. Projected production for the next five years is based largely on trends in the development and adoption of technology and government programs. Producer participation in programs is estimated on the basis of the economic outlook and requirements of the programs. The annual acreage base for each crop is based on the land base in the previous year, the economic outlook, and program requirements. Planted area is the acreage base minus any diverted area. Harvested area estimates depend on historical crop abandonment ratios. Yields are estimated from 1964 to 1982 trends.

In assessing the cost of the long-term cropland reserve, it is first assumed that current programs are continued:

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[1] Alternative Futures for World Food in 1985, Volume 3, World GOL Model Structure and Equations, FAER No. 151, ESCS, USDA, June 1978.

Price support loan rates remain at levels set for FY 1984/85 except for those commodities for which loan rates are set by market price formulas (cotton and soybeans).

Price deficiency payments continue, with target prices frozen at FY 1985 levels and payment limitations continue at $50,000 per farm.

Both voluntary set-aside and paid diversion programs continue and are used when production surpluses are anticipated. Land diversion payments continue the flat rate offer system, with payment based on a per bushel rate and the yield history of the diverted land.

The farmer-owned reserve (FOR) is continued with the same operating rules as in FY 1985. No special FOR loans are offered, interest is charged for the first year, and storage payments per bushel are unchanged.

Current resource conservation programs are continued with no major changes. The annual budget of about $1 billion is used for technical assistance for individual farmers, for conservation cost sharing, and for small watershed development.

Current levels of export market competition continue, along with current export promotion programs.

The projections begin with the FY 1986 crops, with conditions from 1985 crops determining the economic starting point. In the absence of bad weather, the first year of the new farm bill would be expected to begin with markets somewhat weaker than they are in the current year.

With the assumed external conditions in large part dictating domestic and foreign demand, the farm sector likely will continue to face significant economic pressures until near the end of the period. Both export and domestic markets are likely to be large and growing moderately, but overshadowed by large production potential. Only during FY 1988 and later would world economic growth begin to strengthen export markets and domestic prices perceptibly.

Significant economic pressure from interest rates and capital costs will continue. This squeeze would affect farmers who are most debt-leveraged. Special debt relief programs could be expected.

During the third and fourth years of the program, world markets are expected to strengthen as recovery becomes stronger. Markets for U.S. products will expand and commodity use move closer to production, allowing slightly declining stocks and stronger prices.

Under a continuation of current policy, government programs would be expected to play very important roles for the coming five years and longer. Between 26 and 31 million acres of cropland would be diverted each year under annual programs, an average of nine percent of the cropland base. The cost of the paid land diversion, target price, and commodity storage programs required to divert this land would average about $5.2 billion annually, exclusive of the cost of resource conservation programs, export development programs, and change in the level of CCC loans.

THE COST OF A 30 MILLION ACRE CONSERVATION RESERVE

Following the evaluation of the performance of the sector under the continuation of current policy, it was evaluated for the same period with all of the foregoing assumptions unchanged, except that a long-term conservation reserve is assumed to be authorized and implemented.

The reserve would include only eligible land, designated by soil experts in terms of its vulnerability to erosion damage.

Land in the program is to be planted to conserving crops and timber for ten years. It may be grazed, and hay crops and timber harvested. At the end of the ten-year period, it is to be ineligible for basic commodity programs.

Owners would be invited to offer land for inclusion in the program, and specify their bid prices per acre. Based on previous long-term conservation programs, the average per acre cost of a 30 million acre reserve is assumed to be $44.

Land included in the long-term reserve is assumed to be distributed by crop as follows:

	Percent	Million acres
Wheat	58	17.4
Feed Grains	35	10.5
Cotton	7	2.1
Total	100	30.0

The cost of the program was estimated assuming that all current commodity programs continue to operate, including the price support loan program, the voluntary and paid land diversion program, and the farmer-owned reserve program.

The projections assume that as land is shifted into the LTCR, the paid diversion program is reduced and limited voluntary set-aside programs continue. As a result, the total amount of land diverted is increased, planted area reduced, prices strengthened, and costs reduced compared to a continuation of current policy.

Changes in program costs under three sets of assumptions follow:

The LTCR is established and 30 million acres diverted during FY 1986. Over the five-year period, program costs would be $6.4 billion lower (Table 1). The cost of the LTCR alone would be about $0.6 billion greater than the cost of the paid diversion program alone, but the $7.0 billion savings from other programs would more than offset the increase in direct land diversion costs.

The LTCR is established, but built to 30 million acres over three years (10 million acres per year). All other policies are the same as in FY 1985.

Over a five-year period, program costs would be $4.1 billion lower. The LTCR itself would cost $0.7 billion less than the diversion program it would displace. This option would save less than if the loan program were operated immediately at the 30 million acre level and for the full five years because the impact on commodity prices would be smaller. The savings from reduced target price payments would be less than half as great (Table 2).

The LTCR is established and built to 30 million acres over three years. In addition, all commodity price support loans and target prices are reduced five percent each year (Table 3).

TABLE 1.—5-YEAR PROGRAM COSTS AND SAVINGS, 30 MILLION ACRE LTCR

[In millions of dollars]

Item	1986/87		1987/88		1988/89		1989/90		1990/91		Total		
	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	Savings
Deficiency	3,849	2,479	3,933	2,449	3,621	2,404	3,403	2,129	2,847	1,524	17,653	10,985	6,668
Storage	483	472	496	473	470	420	430	353	410	274	2,289	1,992	297
Diversion	1,092	0	1,113	0	1,285	0	1,300	0	1,197	0	5,987	0	5,987
Conserv. Reserve	0	1,320	0	1,320	0	1,320	0	1,320	0	1,320	0	6,600	−6,600
Total	5,424	4,271	5,542	4,242	5,376	4,144	5,133	3,802	4,454	3,118	25,929	19,577	6,352
Savings		−1,153		−1,300		−1,232		−1,331		−1,336		−6,352	

TABLE 2.—5-YEAR PROGRAM COSTS AND SAVINGS, LTRC INCREASED TO 30 MILLION ACRES IN FISCAL YEAR 1989

[In millions of dollars]

Item	1986/87		1987/88		1988/89		1989/90		1990/91		Total		
	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	Savings
Deficiency	3,849	3,849	3,933	3,933	3,621	2,517	3,403	2,260	2,847	1,892	17,653	14,451	3,202
Storage	483	483	496	496	470	451	430	380	410	327	2,289	2,137	152
Diversion	1,092	0	1,113	0	1,285	0	1,300	0	1,197	0	5,987	0	5,987
Conserv. Reserve	0	440	0	880	0	1,320	0	1,320	0	1,320	0	5,280	−5,280
Total	5,424	4,772	5,542	5,309	5,376	4,288	5,133	3,960	4,454	3,539	25,929	21,868	4,061
Savings		−652		−233		−1,088		−1,173		−915		−4,061	

TABLE 3.—5-YEAR PROGRAM COSTS AND SAVINGS, LTCR INCREASED TO 30 MILLION ACRES IN FISCAL YEAR 1989, TARGET PRICE AND LOAN LEVELS REDUCED 5 PERCENT ANNUALLY

[In millions of dollars]

Item	1986/87		1987/88		1988/89		1989/90		1990/91		Total		
	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	CCP	LTCR	Savings
Deficiency	3,849	2,644	3,933	1,681	3,621	397	3,403	154	2,847	80	17,653	4,956	12,697
Storage	483	483	496	496	470	451	430	380	410	327	2,289	2,137	152
Diversion	1,092	0	1,113	0	1,285	0	1,300	0	1,197	0	5,987	0	5,987
Conserv. Reserve	0	440	0	880	0	1,320	0	1,320	0	1,320	0	5,280	−5,280
Total	5,424	3,567	5,542	3,057	5,376	2,168	5,133	1,854	4,454	1,727	25,929	12,373	13,556
Savings		−1,857		−2,485		−3,208		−3,279		−2,727		−13,556	

The reduction in program costs is far greater under this option than the others, $13.6 billion. The direct LTCR costs are $0.7 billion less than the direct diversion program it replaces, and the likey reduction in target price and storage payment costs would add to $3.4 billion, for savings of $4.1 billion from the LTCR alone. In addition, lowering target prices and loan levels would save about $9.5 billion, for a total savings of $13.6 billion.

In addition Mr. Chairman, I would like to discuss some needed amendments to the Farmland Protection Policy Act (FPPA) which this Committee unanimously agreed to in the 1981 Farm Bill. However, as you know USDA was extremely slow in implementing the provisions of the FPPA so, therefore, we would like the Committee to amend the basic title (Title XV—Resource Conservation—Subtitle I—Farmland Protection Policy Act—PL 97-98 of the 1981 Act.

We would recommend the following changes be made to the FPPA in the 1985 Farm Bill.

I. CLARIFY BASIC POLICY

The original Act was somewhat unclear as to its basic policy directive. What seems to be a statement of policy in Sec. 1540(b)—that federal agencies should take action to minimize farmland conversion, and respect state and local judgements about protecting farmland—is labeled "Purpose:" Sec. 1541, labeled "Farmland Protection Policy," actually sets forth a method of carrying out the policy. USDA has interpreted this ambiguity to mean that the Act contains no authority for agencies to withold financial support of projects that would convert farmland to nonagricultural use. In other words, USDA sees the Act as a "study only" statute. This appears to be contrary to Congress' intent that the Act have the actual effect of reducing farmland conversion at the hands of the federal establishment.

II. PROVIDE CLEAR PROCEDURES FOR PROJECT REVIEW AND USDA'S OVERSIGHT ROLE

The original Act relies on project review "criteria," to be developed by USDA and applied by its sister agencies, to carry out its policy directive. It does not specify how the agencies should apply them or what role USDA—"the agency primarily responsible for implementation of federal policy" (Sec. 1540(a)(6))—should play. USDA developed what can only be called "non-criteria," leaving it up to other agencies to weight them as they see fit, despite their lack of agricultural expertise, without active USDA oversight. USDA was able to interpret the Act in this way because original Sec. 1541(a) simply directed USDA to develop criteria, omitting any further directive (other than an arguable inference from a USDA reporting requirement in Sec. 1546) that USDA oversee agency application. Again, this appears to be contrary to Congress' intent that USDA assume primary responsibility for oversight.

III. PROMOTE IMPLEMENTATION BY ENFORCEMENT

A major shortcoming of the original Act, illustrated by the fact that its implementation has been delayed and frustrated to date, is the absence of any mechanism—other than the good faith of the Executive Branch, for the enforcement of its policy directive and procedures. Sec. 1548 of the original Act provides that agency decisions are not reviewable by the courts; the intent being to avoid the kind of delays that have plagued federal projects under NEPA and other environmental laws. But if the experience with NEPA over the past decade and a half illustrates anything, it is that judicial oversight is an effective means of assuring that Congress' statutory intent is honored by the Executive Branch, resulting in compliance by federal agencies that, in turn, reduces delays due to court challenges.

IV. RECONCILE PRIVATE PROPERTY RIGHTS ISSUE

The original Act provided a pretext for a USDA interpretation that it could not be applied to deny federal funding to federal construction projects if owners of the farmland which would be taken objected. Sec. 1547 appears to have been intended simply to reiterate Congress' intention that the Act did not create a program to regulate the use of private land—that it applied only where the federal government was financially involved with a project, whether on public or private land. But its stipulation that the Act "does not authorize the federal government in any way to regulate the use of private land, or in any way to affect the property rights of owners of such land" was taken to mean that the Act could not be applied to deny project funding against the wishes of landowners—even if they received a subsidy in the form of federal funds. This interpretation by USDA does not coincide with the intent of Congress and is based, moreover, on the assumption that landowners somehow have a constitutional right to receive federal funding in aid of the development of their property.

Mr. Chairman, these are the major points that need clarification in the FPA and we would appreciate it if the Committee would consider them.

That concludes my testimony. I would be pleased to answer any questions.

STATEMENT OF KENNETH A. COOK, CONSULTANT IN AGRICULTURE POLICY

Mr. Chairman, distinguished Members of the Committee; I am Kenneth A. Cook, a writer and analyst in food and agricultural policy, specializing in resource and environmental issues. I was the principal writer and analyst for the 1984 American Farmland Trust report "Soil Conservation In America: What Do We Have To Lose?" and of the legislative handbook for the 1985 farm bill recently released by the Sierra Club. Since 1978, I have written over thirty articles on policy matters for the Journal of Soil and Water Conservation, published by the Soil Conservation Society of America.

This year I am working with a number of organizations, all of which are participating in the 1985 Farm Bill debate in one way or another, including the American Farmland Trust, the National Audubon Society, the Sierra Club, the Board on Agriculture of National Academy of Sciences, and the Roosevelt Center for American Policy Studies. The views I will express today are, of course, strictly my own.

I would like to direct my remarks today to two topics. First, the critical need for a conservation reserve program and sodbuster policy to supplement our traditional soil conservation programs and help solve severe soil erosion problems on United States cropland. Second, the details of a strong sodbuster policy which is supported by virtually every major national conservation, environmental and wildlife group in the country.

Despite longstanding interest in soil conservation on the part of the subcommittee, many Members of the Congress, and the conservation agencies in the United States Department of Agriculture, we must be candid about the fact that soil conservation has always been a marginal consideration in mainline farm policy. The reason is fairly simple: saving soil usually costs someone—either farmers, government, or both—money in the short term, but the costs of losing soil usually don't show up for many, many years. So soil erosion never appears in the form of an environmental emergency or crisis like Love Canal or the Kesterson Wildlife Refuge.

As a result, it has been fairly easy for the farm community—the Congress, the USDA, farmers, farm groups, conservationists—everyone to relegate soil conservation to the traditional, voluntary programs, mainly SCS conservation technical assistance, the Great Plains Conservation Program, and the Agricultural Conservation Program administered by ASCS.

In recent years, we have seen that these programs are simply not able to cope adequately with severe soil erosion problems. Frankly, we can no longer assume that these programs will do the job by themselves. For example, in the 1984 AFT report, we estimated that under fairly opimistic assumptions, USDA conservation programs would reduce sheet, rill and wind erosion on cropland by 250 million tons in 1985. That amounts to about 8 percent of the estimated total of 3 billion tons of sheet, rill and wind erosion on United States cropland reported in the 1982 NRI.

The main reason for that enormous conservation gap is that there is nothing in the arsenal of the voluntary conservation system to deal with the relatively small proportion of United States cropland on which erosion problems are very severe. The outlook for increasing the direct federal support for that system is hopeless, given our current budgetary pressures. But even if we could increase the budget for SCS technical assistance and the ACP program, they could not do the job. The corrollary to that is we can no longer let the rest of our farm policy decisions off-the-hook so far as resource considerations are concerned.

The implications of what we call the "conservation gap" is really very clear: we will never solve our most serious cropland erosion problems unless we shift erosion-prone cropland into some sustaining use like pasture, range, forest, or wildlife habitat.

And given that our traditional conservation programs cannot seem to cope with the severe erosion problems on land now in production, there is almost no hope that we can cope with any more highly erodible land that may be brought into the system in the future.

That's why we must have an effective conservation reserve program—to promote a land use change on to conserving uses on erosion prone land.

And that is why we need a strong strong sodbuster policy, to completely eliminate all USDA program subsidies for conversion of yet more highly erodible land to cropland use.

None of us who are working for the conservation reserve harbor even the slightest delusion that the program is being popularly received by farm community on conservation grounds alone. As Bob Gray has pointed out, the conservation reserve simply is a politically appealing way to help save farmers, farm programs, Treasury costs, and soil. Now I'd like to turn to a tough sodbuster proposal some farmers may not like, but which nevertheless is part of the bargain for having a conservation reserve.

KEY PROVISIONS OF THE SODBUSTER POLICY

Land affected

Highly erodible land that has not been cropped in any of the 5 years immediately preceeding enactment of the policy and certain wetlands. Highly erodible land cultivated at least once since 1981 would be exempt through 1990. That represents a shortening of the grandfather period from the 10-12 year period found in nearly all sodbuster legislation introduced to date.

Futhermore, in 1990, the sodbuster policy should be extended to apply to all highly erodible land regardless of when it was brought into production. In effect, we would provide farmers with a 5 year grace period in which to adequately control erosion on that land, enroll it in the conservation reserve, retire the land from production on their own, or risk losing their eligibility for USDA program benefits on any land they own or have any financial interest in.

Definition of highly erodible land

Studies by AFT, USDA, the National Academy of Sciences and many others have shown that the Land Capability Class System is excellent for on-farm conservation planning, but fatally flawed for implementation of nationwide policies or programs aimed at highly erodible land (or "erosion-prone" land in the case of the conservation reserve). We disagree strongly with the USDA'S current position on the sodbuster definition, which is to continue to use the capability classifications.

We propose instead that sodbuster policies will apply to any land not cultivated since 1981 on which the potential for sheet, rill or wind erosion exceeds a specified rate in relation to the established USDA soil loss tolerance (T value) for that land.

There are very important reasons why this change is needed:

1. The land capability class system was never designed for nationwide policies or programs where money is at stake. It was designed to help farmers plan conservation practices on their own farms. The system was not planned to be consistent nationwide—and it isn't.

2. According to the Department's own analyses, if sodbuster sanctions are applied to land using the LCCS classes IVe, VIe, VII and VIII, we'll exempt most of the land that will have very high rates of erosion if it's brought into cultivation. For example, according to USDA about 600,000 acres of subclass IIe and IIIe land brought into production between 1979 and 1982 had wind or water erosion rates greater than 14 tons per acre per year—more than twice the national average rate on cropland already in production. This land would be exempt from the sodbuster bill under the USDA capability class definition. Only about 450,000 acres in classes IVe–VIII—the USDA definition—had erosion rates this high when it was brought into cultivation over the same period.

So a farmer with IIe or IIIe land that will have very high erosion losses if it is cultivated will be exempt from the sodbuster sanctions. His neighbor, who may happen to have IVe land with that will not erode excessively if cultivated, will be penalized.

3. We agree with USDA that some farmers are familiar with the capability classes, but that's no reason to use those classes in a way that would be unfair to many farmers. The purpose of a sodbuster definition should not be to save SCS from a modest amount of field work. Where money is at stake, farmers are entitled to the best, most scientifically defensible criteria of erosion problems we can manage in the field. If very brief field visits are required to assure farmers a fair shake, so be it. SCS technicians are very familiar with the erosion equations—they applied themat. over 800,000 sample points nationwide in the 1982 National Resources Inventory. Checking compliance on a sodbuster policy will be a very good use of their time. Especially when one keeps in mind the amount of technical assistance that would be required to correct erosion problems on land that an effective sodbuster would discourage from being cultivated.

4. To our knowledge, the LCCS has never been tested in court. The use of a soil loss equation to identify erosion problems has been tested—and upheld—by the Iowa State Supreme Court as a scientifically and technically defensible way of identifying serious erosion problems.

Definition of wetlands

A task force of wildlife experts are now evaluating a suitable definition to apply sodbuster to wetlands.

Penalties

Violators of the sodbuster policy will be free to farm without further government "interference"—no price supports, no deficiency payments, no disaster payments, no crop insurance, no USDA credit, no technical or financial assistance for conservation on any land they farm or have a financial interest in. Futhermore, many of us will be working hard to introduce legislation in this session to eliminate provisions of the federal income tax code which now make a moneymaker out of sodbusting, wetlands drainage and other land-abusing farming practices.

Exemptions

Farmers would be exempted from sodbuster penalties if they immediatley devise and implement a conservation plan for highly erodible land they bring into production, such that erosion rates will be brought below the official USDA soil loss tolerance (T value) assigned to that soil within 2-3 years.

Verification and spot checks

Farmers would be required to report to the local ASCS office prior to cultivating any land that has not been cultivated since 1981. If that land is highly-erodible, as defined by the sodbuster policy, they would be informed that cultivating it would subject them to sodbuster penalties. Spot checks would be used to guard against violations of the reporting requirement.

Mr. Chairman, I would be happy to answer any questions you or other Members of the Committee may have about my testimony.

Thank you.

STATEMENT OF RON ELLERMEIER, VICE CHAIRMAN, NEBRASKA CHAPTER, SIERRA CLUB

Mr. Chairman, and members of the Committee, my name is Ron Ellermeier. I am here today to talk about soil and water conservation provisions needed in the 1985 Farm Bill. I farm 760 acres of mostly irrigated row crops in South Nebraska, and serve on the Board of Directors of the Little Blue Resources District. I am also Vice-Chairman of the Nebraska Chapter of the Sierra Club. It is from these vantage points that I have witnessed the ravages of soil erosion and wetlands destructions, and the water pollution and flooding caused by these abuses.

For most farmers in my area, farm programs have worked well. The programs enabled them to survive times of natural disaster or abysmally low commodity prices. Unfortunately, there is a smaller but significant number of operators who have learned to exploit the system and the land. With the support of farm programs and the tax code, they can rack up big profits by plowing out highly erodible lands or converting wetlands to crop production.

Erosion has become more acute during the last ten years because of the vast increase in cultivation of highly erodible areas, as in the Sandhill region of Nebraska. I won't belabor you with statistics about soil loss except to say that nearly one out of every five acres in Nebraska loses at least twice as much soil as can be replaced naturally. Five tons per acre per year is generally accepted as a tolerable rate of soil loss—about the thickness of a dime. We lose about 4½ dimes' depth of soil annually from Nebraska's highly erodible acres. The photos attached to my statement document erosion damage in Nebraska and Colorado. This map indicates the amount of erosion on cultivated land in each state where erosion is at least twice the tolerable rate. The states with the worst erosion are outlined in purple and orange.

Soil erosion reduces the long-term productivity of our farmland. But it also poses an immediate threat to water quality. Runoff from farmland is one of the prime sources of untreated water pollution. Enough soil washes off our farmland and into streams and lakes each year to cover Indiana an inch deep with soil. Sediment, fertilizers, herbicides, and pesticides choke our rivers and poison our fish. This erosion causes an estimated $2 billion a year in damages to water quality and navigation. In Nebraska, the Republican River is filled with sediment and silt from erosion, so that its one third as deep as it used to be. This siltation has also increased flood damage to farms and towns.

Our precious, dwindling wetlands—which provide vital habitat for migratory fowl, filter and purify agricultural runoff, and control floods—are also threatened by agriculture. Nationwide, nearly half of them have been filled or drained. The Office of Technology Assessement estimated that four out of every five acres of wetland lost through the mid 1970's were destroyed for agricultural production.

In Nebraska, 90 percent of our original wetlands have been cleared and drained to produce more corn and wheat—which are already in massive surplus! It makes little sense for taxpayers to help pay for wetlands destruction in order to produce an even greater surplus. (See appendix for estimated wetlands losses by state.)

The federal goverment has encouraged this destruction by providing economic support for the conversion of prairie and wetlands into crop lands. I can relate a personal instance of farm programs promoting wetlands destruction. A local Soil Conservation Service agent urged me to till in a five acre wetland on my farm to dispose of soil dug for a water recycling system, and to increase my corn production. I refused to do this, but my neighbors who do plow up prairie and fill wetlands are rewarded with larger crop bases and federal price supports.

As a conscientious farmer, I have suffered economically for my refusal to plow highly erodible land or drain wetlands. Conservation lowers my crop production and reduces my "crop base," thereby reducing my income. And the extra crops grown on highly erodible lands and wetlands lower crop prices for everyone. This system of penalizing conservationists and rewarding exploiters must end.

Last year, the Senate passed sodbuster legislation which was a positive step toward addressing a part of the erosion problem. Unfortunately, the bill had loopholes big enough to drive a tractor through. The Sierra Club urges the Committee on Agriculture, Nutrition and Forestry to close these loopholes, and include several new protections in the 1985 Farm Bill. These programs would reduce soil erosion by at least 20 percent, and would dramatically improve water quality as well.

End Federal Support For Sodbusting.—Farmers who cultivate highly erodible lands which have not been cultivated since 1980 should become ineligible for participation in all federal farm programs. This needs to include price supports, loans, and insurance for all crops and land in perpetuity, unless they employ conservation practices which reduce erosion to a tolerable rate.

The grace period of Title XV of S. 616 which exempts any land farmed during the past ten years is simply too long. In Nebraska, the worst plow out of prairie and other highly erodible lands occurred in the late 1970's. These lands, such as the Colorado rangeland plowed in 1977 in the photo attached to my statement, would be excluded from sodbuster penalties. A significant portion of these broken out lands have been idled during the recent slump. The grace period should be 1980, as in S. 598 so that farmers who plow these lands again are penalized under a sodbuster program. S. 616 would needlessly let these folks off the hook.

In addition, farmers that break out highly erodible land should be denied participation in all federal farm programs for their entire operation. Based on my experience, if the penalty applies only to the crops grown on the highly erodible land, the sodbuster sanction isn't really a penalty, it is just an annoyance, and will not discourage sodbusting.

End Federal Support For "Swampbusting."—Farmers who drain, fill, or otherwise convert wetlands into croplands should become ineligible for participation in all federal farm programs for all crops and lands in perpetuity. Farmers can convert wetlands to crops if they want to, but this destruction shouldn't be supported by taxpayers.

Convert Highly Erodible Croplands To Sustainable Uses.—A thirty-million acre conservation reserve should be created to encourage farmers to convert highly erodible croplands to such less erosive uses as pasture or timber. Farmers would be paid an annual fee during the ten year life of the reserve contract. Highly erodible land in the reserve program must then be included in the sodbuster program after the ten year contract expires.

A 30-million acre conservation reserve would be cheaper than current soil conservation programs. In 1983, the U.S. and Nebraska agriculture departments spent a total of about $2.50 for every ton of soil saved in Nebraska. It is estimated that a 30-million acre conservation reserve would only cost about $1 for every ton of soil saved.

Integrate Conservation Into Commodity Programs.—Farmers who participate in federal farm programs should be required to reduce erosion from their lands to a tolerable level. In addition, farmers should not be penalized by having their crop base reduced because of voluntary set asides or conservation rotations.

The 1985 Farm Bill provides the perfect opportunity to reduce soil erosion, wetlands destruction, and water pollution. We need the toughest possible sodbuster and swampbuster provisions to penalize—rather than reward—farmers who plow out prairie and other fragile lands, and drain or fill wetlands to produce crops. These provisions would also remove the economic penalties for farmers like myself who conserve fragile lands and wetlands.

Secondly, we need to give a second chance to farmers who converted highly erodible lands to croplands by helping them convert these lands back to sustainable uses. A 30-million acre conservation reserve program would enable us to restore nearly two-thirds of our highly erodible croplands. It would also help all farmers by removing land from production, thereby reducing crop surpluses and increasing prices.

Thank you very much for this opportunity to testify. I will be happy to answer any questions.

ESTIMATED WETLANDS LOSS BY STATE

Arkansas—50 percent of wetlands destroyed.
California—87 percent of wetlands destroyed.
Florida—40 percent of wetlands in southern Florida destroyed by 1973.
Illinois—99 percent of wetlands destroyed.
Iowa—95 percent of wetlands destroyed.
Minnesota—80 percent of prairie wetlands destroyed.
Mississippi—80 percent of bottomland hardwood wetlands in Mississippi River Valley destroyed.
Nebraska—90 percent of wetlands destroyed.
North Carolina—33 percent of Pocosin wetlands destroyed; and 36 percent of Pocosin wetlands drained, cleared, cut or planned for development.
North Dakota—50 percent of wetlands destroyed.
Oklahoma—70 percent of wetlands destroyed.

Source: National Wildlife Federation

STATEMENT OF MAUREEN K. HINKLE, NATIONAL AUDUBON SOCIETY

Mr. Chairman and members of the Senate Agriculture Committee, as one of the oldest and largest non-profit membership organizations devoted to resource conservation, the National Audubon Society appreciates this opportunity to testify on the conservation title of the Omnibus Farm Bill of 1985.

In a recent poll, our 500 chapters, comprising a half million members, named wetlands and wildfife as our highest organizational priorities. Such a grassroots expression is understandable in light of our 75 sanctuaries, most of which were given to Audubon to preserve wildlife, wetlands, and other areas of ecological concern. Wise use and sustainable management of the nation's land and water resources have been high priorities for Audubon throughout our 80 year history.

We have supported conservation legislation in the past, and we are pleased to work with you on the 1985 Farm Bill.

NATIONAL POLICY

The National Audubon Society joins with other groups in supporting the establishment of a national policy for resource conservation for all federal agencies.

The policy's overall objective should be to maintain or improve the productivity and quality of our soil and water resources, and to minimize adverse environmental effects related to the use of those resources. The American Farmland Trust recommendation on this policy urged that all government agencies through their policies and activities recognize (1) the long-term nature of agricultural resource conservation planning and implementation, and (2) inherent differences in the quality and capabilities of land for sustainable agricultural production. Audubon fully endorses that recommendation. Indeed, the National Academy of Sciences study, "Impacts of Emerging Agricultural Trends on Fish and Wildlife Habitat," made a similar recommendation that applied specifically to the fishery resource and wildlife community.[1] Lauren Soth endorsed the concept in his Des Moines Register column last November: "Protection of the natural resources should be a fundamental part of every government activity relating to agriculture. This means, in my view, environmental assessments in connection with government price-support, acreage-control, credit and other programs. It means a requirement of land protection as eligibility for farm benefits."

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[1] 1982, page 27.

DEFINITION OF HIGHLY ERODIBLE LAND

In 1985, S.663 applied the term "highly erodible" to land classified by SCS as class IV_e. and above. H.R. 3457 added land that had an erosion rate level equal to or greater than class IV_e. Mr. Roberts' H.R. 1777 adds land eroding at a rate at least two times the tolerance level as determined by the Secretary of Agriculture. H.R. 1420, introduced March 5 at the request of the Administration by Mr. Madigan, would allow the Secretary to determine what lands should be included. In Sec. 1501(3) of S.501, the Administration proposal, the need to include soils that have "an excessive rate of erosion" is recognized.

The soil loss tolerance (T-value) for most soils was set by SCS at 5 tons per acre per year, based on an estimated rate of soil formation to maintain productivity indefinitely. A more sophisticated approach emerged after scientists analyzed soil and productivity together with the 1977 and 1982 National Resources Inventory (NRI) statistics. The T-value should be greater than 5 tons per acre for deep soils, for example, and less than 5 for shallow soils that cannot tolerate any erosion. The 1977 and 1982 NRI analyses indicated that by carefully specifying the differential impact of erosion on soils, a clearer picture of potential productivity losses could be developed.

Therefore, Audubon supports the definition developed by AFT of highly erodible and how it would apply to sodbuster lands and lands eligible for a conservation reserve or other multiple year set-asides: "The term "highly erodible land" means land (i) that has, or would if cultivated have, an excessive rate of erosion as determined by the Secretary on the basis of regulations which apply the Universal Soil Loss Equation and the Wind Erosion Equation, as appropriate, and consider all relevant factors, including but not limited to the type of agricultural commodity that has been or would be planted and the soil and water conservation practices used or to be used on the land, or (ii) that has, or would if cultivated have, an excessive rate of erosion as determined by a State under criteria or regulations that are more inclusive than those adopted by the Secretary."

WETLANDS

Under H.R. 3457, if a farmer wanted to bring highly erodible land into crop production, that land would be ineligible for federal program supports unless a conservation plan for that land was locally approved. Because agriculture is responsible for 87 percent of wetland losses, Audubon urges the addition of wetlands to the category of land that would lose federal subsidies if put into crops without an appropriate conservation plan.

Definition and classification.—Executive Order 11990 and the Corps of Engineers regulations[1] define wetlands as lands that are at least periodically inundated by surface or groundwater with sufficient frequency and duration to support plant and animal life, which require saturated soil conditions for growth and reproduction. They include swamps, marshes, bogs, and similar areas, including sloughs, potholes, wet meadows, river overflows, mud flats, and natural ponds.[2]

Wetlands have been most commonly classified according to vegetative type, mean water depth, and water permanence. Major types are:[3]

Type 1—seasonably flooded basins or flats
Type 2—inland fresh meadows
Type 3—inland fresh marshes
Type 4—inland deep fresh marshes
Type 5—inland fresh open water

Water permanence is an inherent factor in the classification of wetlands, and includes:

Class 1—ephemeral
Class 2—temporary
Class 3—seasonal
Class 4—semi-permanent

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[1] Section 7(c), Exec. Order No. 1190, 3 C.F.R. Sec. 117 (1977); also Regulatory Program of the Corps of Engineers, 33 C.F.R. Sec. 8232.2(c) (1979).

[2] Holmes, Beatrice Hort, "Federal Participation in Land Use Decisionmaking at the Water's Edge—Floodplains and Wetlands," Natural Resources Lawyer, Vol. 13, No. 2, 1980, at 383.

[3] National Academy Press, "Impacts of Emerging Agricultural Trends on Fish and Wildlife Habitat," 1982, pp. 221-44.

Class 5—permanent

Quantity of soils with wetness condition.—SCS has identified soils having a wetness condition with the designation "w". Of that designation, 40 percent of those soils on nonfederal lands are used for cropland, and account for 24.4 percent of total U.S. cropland. Severe wetness conditions account for 9.4 percent of total U.S. cropland.[1] For regulatory purposes, wetlands do not include many areas classified as having a wetness condition. (U.S. Army Corps, 33 C.F.R. Sec. 823.2(c) (1979).) Thus, all w soils would not be precluded from cropping.

Conversion of wetlands to cropland.—Despite considerable efforts on the part of the private sector, and state and federal governments, large amounts of wetlands have been converted to cropland. From 1955 to 1977, 575,000 acres per year were lost. Eleven million acres were converted in the lower 48 states. Although this rate of conversion has slowed to between 450,000 and 300,000 acres per year, the loss is irreversible in most cases, and the contribution to soil erosion and deteriorated water quality is extraordinarily high.

Trends in conversion.—Conversion has been encouraged in a variety of ways. In 1953, SCS announced that 50 million acres of "wet and swamp lands which are subject to overflowing . . . would be physically suitable for crop or pasture use 'if proper drainage measures were employed.'" However, by 1975 SCS declared that it would not provide technical or financial assistance for "draining or otherwise altering wetlands . . . in order to convert them to other land uses." Recognizing that millions of acres of wetlands had been altered and impaired, SCS urged care and effort to protect the remaining aquatic ecosystems.[2] This change in policy was due in large part to challenges by the Fish and Wildlife Service, state wildlife agencies, and environmental organizations.

How much has been destroyed? More than half the prairie wetlands, 62 percent of the Southwest Pacific coastal marshes, 87 percent of the estuarine wetlands in the Northeast, and two-thirds of the bottomland hardwoods.[3]

VALUE OF WETLANDS

As stated at the outset, Audubon chapters across the country voted wetlands as our highest priority for the coming year. The reasons underlying this priority run the gamut of Audubon's environmental and conservation goals.

Pollution cleansing.—Bottomland hardwoods serve as filters to clean river waters of pollutants and as recharge areas for groundwater aquifers. A few hundred acres of swampland can purify urban wastes. Alluvial floodplains have proved to be sinks for radioactive cesium, oil, nitrogen, and phosphorus, sewage and fly ash. The cleansing properties of wetlands also affect pesticides and heavy metals.

Fisheries.—The importance of stream flow to fish ecology is amply documented in the Academy study on wildlife (p. 202) and in a recent column by Tom Barlow.[4]

Wildlife.—The loss of wildlife when wetlands are destroyed is dramatic. One quarter of the continental mallard population winters in the Lower Mississippi Basin, where 200,000 acres of bottomland hardwoods have been converted to row crops each year. Between 1937 and 1977, 6.6 million acres of bottomland hardwoods were converted to soybeans. Eighty-five percent of the nation's woodcocks and vast numbers of geese winter in the Lower Mississippi Basin.[5] Destruction of their habitat imperils their survival.

Erosion.—Wetlands reduce flooding and help prevent erosion. Filling or draining them can have serious consequences. As Jim Spencer, a soybean merchandiser and free lance writer who decried the conversion of Mississippi bottomland hardwoods to soybeans, phrases it, "It takes no Einstein to see that erosion will be greater on soybean land than on forestland, or wetlands, or prairie. Siltation increases more rapidly." The Illinois River provides another example. In the words of a witness before this Committee in 1979, ". . . siltation from farmland is now the principal threat to [the Illinois River's] survival as anything more than a glorified drainage ditch. Indeed, it may be too late to restore the Illinois to full productivity. But for the upper Mississippi River and for other American rivers there is still time, if we heed the warning." [6]

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[1] Horwitz, Elinor Lander, "Our Nation's Wetlands," an Interagency Task Force Report, 1978, pp. 31–32.

[2] Horwtiz, op. cit. at 52.

[3] Harmon, Keith W. and Chester A. McConnell, The Politics of wetland conservation: A wildlife view, in J. Soil Water Conservation, 38:2, 1983, p. 95.

[4] "Why Streams Need Trees," Garden, March/April, 1982.

[5] Spencer, Jim, Soybean Boom, Hardwood Bust, in American Forests February 1981, 87:2, pp. 22–24.

Sodbuster application to wetlands.—Fewer than 90 million acres of wetlands remain. We do not need wetlands to produce surplus commodities. Denying federal subsidies to wetland conversions would add a measure of protection to these invaluable lands, thereby reducing the gross addition of greater soil erosion as well as other off-site problems touched on briefly here. Denying federal subsidies to farmers who drain wetlands would conserve resources in two ways: first, by preventing wetlands from being added to the base of marginal, eroding cropland; and second, by allowing them to continue to perform their natural function of absorbing some of the impacts of erosion from other lands.

CONSERVATION RESERVE

A Conservation Reserve was discussed in the last congressional session without resolution, except for a plea from the Administration to wait to enact a reserve in the 1985 Farm Bill. USDA developed such a proposal for inclusion in the 1985 legislation, but, according to Mr. Roberts' statement in the March 28th Congressional Record, it "ended up on Mr. Stockman's carpet." Thanks to Mr. Roberts, we have the benefit of proposed legislation to establish a 20 million acre reserve. If highly eroding cropland is to be taken out of production, Congress must take the initiative.

The National Audubon Society supports establishing a 30 million acre Conservation Reserve based on the persuasive analysis developed by the American Farmland Trust on how this reserve would work. The estimated cost savings developed by AFT are compelling in this year of the federal deficit.

In addition to savings to the federal treasury from subsidies not paid to produce surplus commodities on highly erodible croplands, a most important reason for Audubon's enthusiastic support of the Conservation Reserve is the wildlife benefits of a multi-year reserve.

Alfred Berner of the Minnesota Department of Natural Resources developed Table 1,[1] which clearly shows that the cost of annual set-asides is consistently high in contrast to long-term set-asides. In 1972, the cost of 62.3 million acres was $2.7 million. In 1983, for around 80 million acres enrolled in PIK and other set-asides, the cost mounted to $9 billion for PIK alone, and another $4-9 billion for conventional set-aside acres.

Chart 1 (attached) shows that the first 25 years, from 1935 to 1960, of acreage set-asides, an average of 15 million acres per year was retired. The second 25 years, from 1960 to 1985, the average was 34 million acres annually. The in and out aspects, the high and zero acreage set-asides are clearly seen from this dramatic chart. The costs are high: for the 27 year period from 1956 to 1982, subsidy payments totaled $34.879 billion and averaged $1.292 billion per year. Yet erosion was not reduced, wildlife was not enhanced, costs to the federal treasury skyrocketed. We can remove 34 million acres each year, but we need to target the acreage removal to highly eroding croplands, which is what the Conservation Reserve we are discussing today would do. With permanent land retirement of highly eroding croplands, in contrast to annual set-asides, the wildlife benefits are greatly improved.

In the case of soil banks and multi-year set-asides, long-term cover crops of grasses and legumes were required. The 1956-72 Conservation Reserve offered 3-10 year contracts for grass and legumes. The Cropland Adjustment Program (1965-77) required grass-legume seedings, to be left undisturbed for 5-10 years. The positive impact of seeding requirements on Midwest pheasant populations has been discussed by Berner.

In contrast, the annual set-asides (Feed Grain and Wheat Programs) allow administrative flexibility for wildlife conservation, and the mixed to poor results for wildlife have been documented since 1964. A 1983 survey found that over 40 percent of the retired acres were covered only by stubble residue or volunteer plants in mid-June and were totally bare in late July.

The lack of cover from annual set-asides together with conversion of lands important to wildlife (such as wetlands, pastures, haylands, woodlots) to croplands has impacted negatively on various wildlife populations. In 1983, researchers reported that key grassland bird species have declined over 90 percent in Illinois since 1957.

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[6] Sparks, Richard E., Illinois Natural History Survey, River Research Laboratory, Havana, Illinois, "The Impacts of Farming on Important Wetland Resources and Water Quality," testimony before the House Agriculture Committee, Conservation and Credit Subcommittee and the House Science and Technology Committee, Natural Resources and Environment Subcommittee, July 26, 1979, p. 11.

[1] Federal Land Retirement Program—A Land Management Albatross? 1984, 19 pp.

By encouraging long-term retirement options like conversion to grass and trees, soil erosion can be dramatically reduced, and such areas can once again provide excellent reproductive and roosting habitat for a wide array of farmland wildlife.

The Conservation Reserve as embodied in the AFT plan and H.R. 1777 differs from previous reserves and soil banks, which were multi-year set-asides of land eventually brought back into production. The Conservation Reserve we are discussing today would be permanent. At the end of the contract, the highly erodible land established in grass and trees would be considered in the sodbuster category, ineligible for commodity subsidies if it were brought back into production. The result would reduce accumulation of surplus stocks that periodically require expensive annual retirement programs. With an orderly reserve in place, highly eroding lands are taken out of production, thus buffering farmers against low prices and protecting the government from accumulating costly stocks of grain.

Not only would program costs be less, but the established grass and trees would provide public benefits by reduced erosion, improved water quality, increased wildlife production, and a more diverse and aesthetic landscape. Partial farm retirement (as opposed to whole farm retirement) minimizes economic and social impacts, distributing retired land and payments more widely.

WILDLIFE

After the dust bowl of the 1930's, massive federal programs placed cropped acres into woodland and grasses. As shelterbelts, windbreaks, grass waterways, terraces, farm ponds, stripcropping, crop rotations, reduction of field lengths, and contour plowing dotted the countryside, gradually the land and its wildlife began to recover from the "doldrums of dust."

This diversity had ceased to exist by the 1970's, as production went all out in fencerow to fencerow cropping. Since the 1960's, declining wildlife habitat quality has received little attention.

Fortunately, several benefits of wildlife habitat are now being rediscovered. Nebraska has a long-standing program called "Acres for Wildlife," converting small amounts of cropland to wildlife habitat. On most croplands a small amount could be set aside for wildlife habitat with little loss in farm income since some parts of fields consistently yield poorly.

Over the past decade, University of Nebraska researchers have investigated the benefits of shelterbelts, which are known to provide nesting habitat and food for wildlife. In addition, Nebraska scientists have demonstrated yield increases from crops sheltered by such windbreaks. Forage crops such as alfalfa, timothy, red clover and crested wheat grass, as well as vegetables, have increased in yield and in quality of production. Results vary, but overall average yield increases were 18 percent for soybeans, 20 percent for corn, and 22 percent for wheat in fields protected by shelterbelts.[1] A windbreak system comprising 10 percent of the crop area can be paid for in full within 15 years. With an average life span of 50 years, properly designed windbreaks can have a positive effect on income for at least 35 years.[2] Some cost-sharing for early establishment is important.

Similar results have been reported in the United Kingdom. As a long-term investment, just ten good hedgerow oaks around a ten acre field would be worth 10 percent of the value of the land at prevailing prices. Well-designed shelterbelts increased cereal yields by at least 20 percent. Germans found that a 5 percent shelterbelt of a farm's cultivated land would produce a net yield increase of 15 percent.[3]

Because of Audubon's 80-year interest in wildlife habitat, we are understandably pleased to find documentation for broader societal benefits. Shelterbelts, whether established in a Conservation Reserve, or as a separate program, will conserve soil, improve crop yields, raise water tables, and even reduce energy requirements.

CONSERVATION TILLAGE

Sec. 1553 of the 1981 Farm Bill was devoted to conservation tillage, which has emerged as the major cropland management technique in the United States. The basis for this increase and for projections of from 240 million acres up to 100 percent of our cropland in conservation tillage is savings in fuel and labor. These savings are possible because of fewer passes over the field. Essentially, conservation tillage is a term applied to a range of tillage methods that reduces disturbance of the soil by the moldboard plow. By substituting herbicides to control weeds, and employing a surface mulch to cover the bare earth, soil erosion and runoff of agricultural chemicals are reduced. Thus the rise of the slogan: No-till saves oil, toil and soil.

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[1] Brandle, James R., Bruce B. Johnson, and Dave D. Dearmont, Windbreak economics: the case of winter wheat production in eastern Nebraska, in J. Soil Water Conservation, 1984, 39:5, pp. 339–43.

[2] Shelterbelts Still Growing in the Furrow, Nov.-Dec., 1984, 89:6, pp. 18–19.

[3] Integrating farming and forestry in the uplands and lowlands, in The Ecologist, March/April 1981, 11:2, pp. 70–73.

The promise of conservation tillage to control soil erosion nationwide has been a major factor used to justify reductions in federal funds for each fiscal year in the 1980's for soil conservation. However, much of the cropland treated with conservation tillage had only a modest potential for sheet and rill erosion before the practice was adopted. (See Table [2] attached) Therefore such land does not require cost-share funds for conservation tillage for the purpose of saving soil.

Conservation tillage alone will not halt erosion on highly erodible lands. The only effective way to halt erosion on such lands is to convert them to grass or trees. For land with moderately serious erosion problems, the AFT study reinforced historic conclusions on the economics of "traditional" conservation practices that are required to effectively address erosion. Such traditional practices include terracing, stripcropping, crop rotations, contouring, etc. Such practices have not been voluntarily adopted on land subject to severe erosion losses. In the short term, conservation tillage does indeed offer the most efficient technology for reducing soil erosion and runoff of chemicals.

Because of the use of soluble herbicides in conservation tillage, infiltration and leaching of these chemicals to groundwater and eventually to surface water in detectable concentrations has been increasing. Currently, SCS and EPA are cooperating on studies by ARS on pesticides in groundwater resulting from agricultural practices.

In addition, we believe that USDA needs to investigate conservation tillage systems for applicability to a wide range of crop residue and soil conditions. Long-term effects need to be researched, as there is a grace period of about five years before problems can be identified with any new technology.

The limitations of conservation tillage are seldom acknowledged in discussions of soil erosion. Too often the cost-effectiveness of conservation tillage makes it appear to be the solution for soil erosion problems. This view could discourage research needed to develop alternative and complementary methods of dealing with the long-term effects of soil erosion.

Conservation tillage is a valuable first choice technology for reducing excess erosion on moderately eroding croplands, but should not be allowed to eclipse traditional soil conservation methods to sustain productivity. Research on long-term effects of pesticides on the soil biota is vital in view of the undisturbed condition of the soil under conservation tillage. Understanding of effects on water quality is also essential in regard to chemical movement in and through the soil to ground and surface waters. Conservation tillage in combination with traditional soil conservation methods also needs to be evaluated for cost-effectiveness.

Conservation tillage has a major role to play in reducing soil erosion, not across the board, but as one of an assortment of techniques to be used selectively as required by local conditions. The potential of conservation tillage and its benefits depend upon greater funding to resolve problems presented by soil erosion.

CONCLUSION

The National Audubon Society supports a sodbuster provision to discourage those who are considering plowing up new lands. We support a swampbuster provision to remove incentives to convert wetlands to crop production. We support a 30 million acre Conservation Reserve to encourage conserving uses for croplands currently experiencing the worst erosion problems.

Such conservation measures focus on resource management and would reduce adverse impacts on our resource base. We believe American agriculture can be productive, economical, and environmentally sound. We pledge our efforts toward that goal.

Thank you.

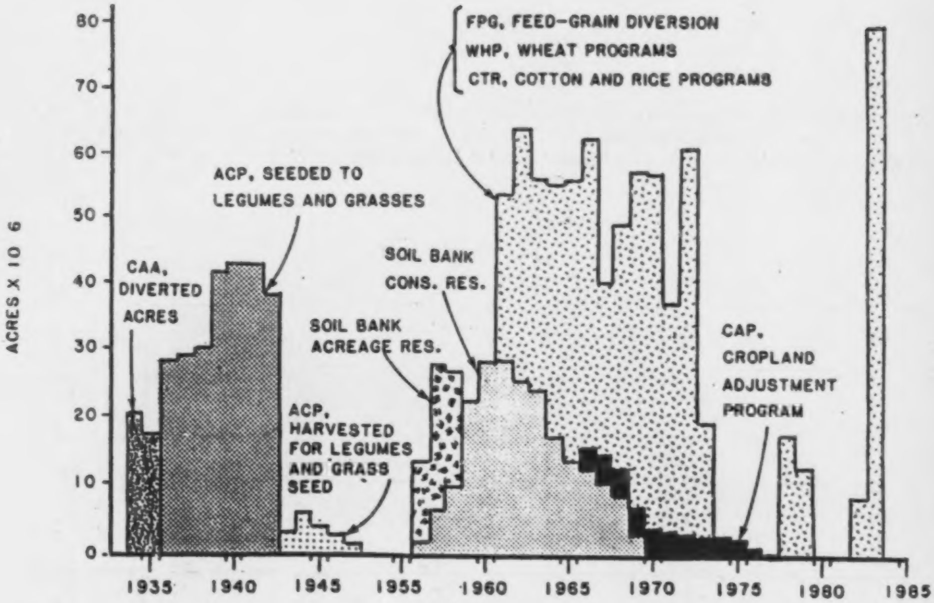
TABLE 1

Expenditures for the various cropland retirement programs in the U.S. since 1960. Expenditures include payment for diverted or set-aside acres, price supports, storage, and access (in million of dollars).

	PROGRAM						
Year	AR	CR	FGP	WHP	CAP	Total	Acreages retired
1956	260	12				$ 272	13.6
57	614	57				671	27.8
58	696	88				784	27.1
59		258				258	22.5
1960		340				340	28.7
61		338	782			1120	53.7
62		311	844	286		1141	64.7
63		296	864	242		1384	56.0
64		200	1171	443		1814	55.0
65		154	684	509	698	2045	55.9
66		147	1295	681	31	2154	62.8
67		126	868	727	57	1778	40.2
68		110	1369	746	55	2280	48.9
69		40	1644	856	54	2594	57.5
1970		1	1510	871	54	2435	57.0
71		0.1	1060	886	49	1995	37.2
72		0.1	1865	859	38	2762	61.6
73			1171	478	36	1685	19.6
74					31	31	2.7
75					28	28	2.4
76					16	16	2.1
77			229	1092	8	1329	1.0
78			1121	698		1918	18.2
79			449	18		467	13.0
1980			79	75		154	0.0
81			730	559		1289	0.0
82			1209	725		1934	9.4
83			?	?		$12,000-18,000	80.6

Taken from Alfred Berner, 1984.

CHART 1



CAA	Cropland Adjustment Act of 1934-1935	[Annual contracts with no cover crop stipulations]
ACP	Agricultural Conservation Program of 1936 (1936-1941)	[Annual contract requiring seeding to grasses and/or legumes]
AR	Acreage Reserve Soil Bank (1956-1958) — Agriculture Act of 1956 Two part soil bank program:	[Annual acreage reserve program which did not require any permanent grass or legume seedings]
CR	Conservation Reserve Soil Bank (1956-1969)	[Conservation Reserve authorized 3-10 year contracts for seeding to various grasses or legumes]
FGP	Feed Grain Program of 1961 covered corn and grain sorghums; in 1962 added barley. Feed Grain Act of 1963 covered all feed grains at Secretary's discretion.	[Annual program not requiring any grass-legume seedings but recommended annual cover crops (e.g., oats) which had to be destroyed before setting seed.]
WHP	Wheat Program	[Annual set asides, no cover requirements]
CTR	Cotton and Rice Programs	
CAP	Cropland Adjustment Program (Food and Agriculture Act of 1965) (1966-1977)	[Required grass-legume seedings to be left undisturbed under 5-10 year contracts]

Chart developed by Alfred Berner, 1984.
Legend compiled by M. Hinkle, 1985.

TABLE 2 */

Table 12.

Cropland Acres Treated With Crop Residue, Minimum Tillage or Both in Combination: Acres, Average Sheet and Rill Erosion Rate, By Potential Erosion Rate (RKLS), 1977.

Potential Erosion (RKLS) Tons Acre	*Crop Residue Alone*			*Minimum Tillage Alone*			*Minimum Tillage and Crop Residue*		
	Acres (1.000)	*%*	*Avg. USLE Rate Tons/Acre*	*Acres (1.000)*	*%*	*Av. USLE Rate Tons/Acre*	*Acres (1.000)*	*%*	*Avg. USLE Rate Tons/Acre*
0-0.9	6.146	5.2	0.09	820	8.9	0.07	2.237	8.4	0.06
1-1.9	7,090	6.0	0.37	342	3.7	0.23	976	3.7	0.37
2-2.9	8,546	7.3	0.66	275	3.0	0.61	1,386	5.2	0.63
3-3.9	8,898	7.6	0.92	629	6.8	0.73	1,572	5.9	0.81
4-4.9	8,211	7.0	1.26	651	7.0	1.21	2.173	8.1	1.23
5-5.9	8,038	6.8	1.54	598	6.5	1.66	2.123	7.9	1.42
6-6.9	7,043	[illegible]0	1.74	612	6.7	1.66	1,770	6.6	1.65
7-7.9	5.647	[illegible]8	2.14	364	3.9	2.06	1,319	4.9	1.85
8-8.9	5,701	4.8	2.49	672	7.3	2.34	1,384	5.2	2.11
9-9.9	5,316	4.5	2.75	320	3.5	2.60	945	3.5	2.42
10-10.9	4,736	4.0	3.08	319	3.4	2.58	1,138	4.3	2.73
11-11.9	4,847	4.1	3.39	250	2.7	3.30	650	3.6	2.88
12-12.9	3,717	3.1	3.62	193	2.1	2.99	849	3.2	3.19
13-13.9	3,381	2.9	3.60	135	1.5	3.28	621	2.3	3.31
14-14.9	2.939	2.5	4.02	251	2.7	3.60	493	1.8	3.71
15-15.9	2.083	1.8	4.31	121	1.3	3.92	485	1.8	4.10
16-16.9	2,110	1.8	4.36	164	1.8	3.67	319	1.1	3.18
17-17.9	1,975	1.7	4.69	113	1.2	4.30	323	1.2	4.68
18-18.9	1,516	1.3	5.23	114	1.2	4.29	408	1.5	4.30
19-19.9	1,522	1.3	5.45	116	1.3	4.86	320	1.2	4.49
20-24.9	4,619	3.9	6.39	437	4.8	5.54	1,113	4.2	5.25
25-29.9	2,888	2.5	7.30	315	3.4	7.25	772	2.9	6.48
30-34.9	1,953	1.7	9.34	193	2.1	8.31	505	1.9	7.14
35-39.9	1,489	1.3	11.01	188	2.0	7.39	292	1.1	9.19
40-44.9	1,053	—	13.21	86	1.0	9.27	265	1.0	9.44
45-49.9	906	—	12.25	171	1.9	11.19	213	—	8.62
50-74.9	2,123	1.8	15.68	274	3.0	16.74	682	2.6	12.99
75-99.9	1,244	1.0	20.24	185	2.0	17.63	379	1.4	16.64
100-149.9	1.131	—	32.36	133	1.4	26.33	393	1.5	25.62
150-199.9	476	—	39.49	58	—	26.61	145	—	26.28
Over 200	427	—	74.24	93	1.0	27.84	108	—	44.27
Total (Avg.)	117,771		(3.91)	9,192		(4.22)	26,658		(3.54)
Average "C" Factor		0.24			0.25			0.24	

Source: USDA, SCS, National Resources Inventory, 1977.

Minimum Tillage in the Corn Belt in 1977

Table 13 gives a breakdown of the cropland in the Corn Belt states that was treated with minimum tillage according to the 1977 NRI. The data in this table represent the acreage for which SCS listed minimum tillage first among three possible conservation practices in order of importance. Note that 40.8 percent of the cropland treated with minimum tillage in the region had a potential for sheet and rill erosion of less than 10 tons per acre annually; 63 percent of the Corn Belt cropland so treated had a sheet and rill erosion potential of less than 20 tons per acre. On average, had this land been planted to corn (average Cfactor value of 0.30) it would have had sheet and rill erosion rates of less than 6 tons per acre without the use of minimum tillage — or any other conservation measure. We will note, in passing, that some of the land in this table is found in the lower RKLS categories by virtue of the effect of terraces on reducing slope length (and hence also reducing the RKLS product). But as we shall see, there are relatively few terraces in the humid states, and those which do exist tend to be in the higher RKLS ranges (greater than 40 tons per acre). We can be fairly confident, then, that most of the Corn Belt cropland treated with minimum tillage had a modest potential for sheet and rill erosion *before* the practice was adopted.

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*/ from: Soil Conservation in America -- What do We Have to Lose? American Farmland Trust, 1984, p. 37.

JOINT STATEMENT OF JUSTIN R. WARD, AGRICULTURE PROJECT ASSISTANT, AND F. KAID BENFIELD, SENIOR ATTORNEY, NATURAL RESOURCES DEFENSE COUNCIL

The Natural Resources Defense Council (NRDC)[1] urges this committee, and the Congress as a whole, to give conservation a prominent position in the 1985 farm bill. Parties involved in last year's conservation debate disagreed on specfic strategies but generally reached a consensus that the farm bill is the place to confront environmental problems associated with agriculture. Our testimony describes these problems and recommends solutions.

THE PROBLEMS PERSIST

Soil erosion today remains a serious threat in rural America. Data from the 1982 National Resources Inventory (NRI) reveal that 44 percent of U.S. cropland is still eroding at productivity-threatening rates, with 23 percent eroding at rates more than twice what soil scientists consider tolerable.[2] While the national figures suggest marginal overall improvement since the first NRI was conducted in 1977, conditions are worsening in some regions. On the Great Plains, for instance, wind erosion damaged over 12 million acres of land in 1983-84, more than two times the acreage harmed in 1982-83.[3]

The impacts of soil erosion are becoming better understood. In addition to the well-documented prospect of reduced crop yields, economic estimates of stream sedimentation and other impacts away from the farm place annual erosion-related social costs in the billions of dollars.[4]

Regrettably, the persistence of the erosion problem stems partly from Congress' inability to send beneficial and popular legislative initiatives to the President's desk. Administrative delay is also to blame; most provisions of even the modest conservation title of the 1981 farm bill have yet to be implemented. What remains, unfortunately, is a system rife with contradictions that foster depletion of our farmland, water and topsoil.

We hope the recommendations that follow will receive the careful attention they deserve as Congress develops general farm legislation to guide the future of American agriculture.

HOW TO MEET THE CHALLENGE

Enact a strong sodbuster bill.—There is absolutely no rationale for providing government assistance to producers who plow out fragile land without undertaking appropriate conservation. Because delay simply breeds more sodbusting, this initiative is already overdue.

Fragile land is being plowed at an alarming rate; between 1977 and 1982, nearly half of the land brought into crop production was highly susceptible to erosion damage.[5] NRDC has long advocated an end to government participation in topsoil loss, we have consistently offered our enthusiastic support for strong sodbuster legislation.

Last year we endorsed legislation that would have denied agricultural program eligibility to sodbusting farmers for their entire operations, and we are eager to support similar provisions again. In addition, we urge Congress to strengthen further the disincentives to non-conserving agricultural practices. Specifically, we favor limiting the "grandfather" exemption to lands that have been cultivated in the past five years, rather than the ten-year allowance in most previous sodbuster legislation. In addition, the definition of "highly erodible land," which would trigger the restrictions on assistance to sodbusters, should be based on site-specific erosion potential—a determination that allows greater accuracy and ease of administration than one based on the capability class system.

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[1] NRDC is a national non-profit membership corporation with more than 45,000 members and contributors, dedicated to the preservation, enhancement and defense of the natural resources of the United States and the world. Through the efforts of its agriculture project, NRDC supports the maintenance and improvement of the productive capacity and soils of our nation's valuable agricultural lands.

[2] C. D. Osteen, The Impacts of Farm Policies on Soil Erosion: A Problem Definition Paper 7 (January 1985) (USDA Economic Research Service Staff Report No. AGES 841109).

[3] "Great Plains Suffer Harsh Wind Erosion," The Denver Post (June 1984).

[4] See E. H. Clark II, "The Off-Site Costs of Soil Erosion," 40 Journel of Soil and Water Conservation 19-22 (January-February 1985).

[5] USDA Soil Conservation Service, "More Land Protected From Soil Erosion," 5 Soil and Water Conservation News 3 (June 1984).

In addition to removing incentives for non-conserving cultivation on lands with severe erosion potential, Congress should consider similar mechanisms to protect other categories of fragile land, such as wetlands.

The common sense underlying sodbuster legislation has resulted in a proliferation of proposals with significant technical differences. We urge the Congress to adopt the strongest possible language; proposals such as S. 523, for instance, are too narrow in both the triggering definition and the restrictions imposed upon sodbusters.

Limit commodity program assistance to conserving farmers. Legislation to require producers who benefit from federal commodity programs to follow conservation practices specified by local conservation districts or ASCS committees has been introduced as part of S. 616, general farm legislation under consideration by this Committee. We strongly endorse the intent of this constructive measure. Alternatively, the sodbuster legislation could be adapted to extend gradually the disincentives to non-conserving marginal land cultivation to highly erodible fields already under the plow.

A system that rewards conserving farmers has tremendous conceptual and practical appeal. In terms of fairness, the system would remove the unfortunate competitive advantage now enjoyed by producers whose neglect of conservation enables them to enjoy lower costs of production than those who conserve.

Local administrative bodies would be well-equipped to tailor cost-effective conservation practices to varied geographic conditions in different parts of the country. A significant amount of erosion control ought to result, particularly in areas where farm program participation rates are high.

The idea of reconciling commodity and conservation programs now permitted to work at cross purposes is becoming increasingly popular among farmers and the general public. A 1979 Harris poll found that over 75 percent of citizens surveyed, and 62 percent of the farmers in the sample, agreed that producers unwilling to take steps to conserve soil and water should not be eligible to receive federal farm program benefits.[6] Throughout a series of twenty-four farm policy hearings held in 1982-83 in Washington, D.C. and across the nation, Congress' Joint Economic Committee also found substantial support for the concept.[7]

Limiting commodity program assistance to conserving farmers would help reduce federal spending without imposing drastic realignments that could work against both the future of American farming and environmental protection. We are concerned that under the "free-market" approach embodied in S. 501, the administration's farm bill, conservation-oriented farmers who now operate at the economic margin would be forced to abandon soil-saving practices simply to stay afloat in a more predatory atmosphere. As farmers seek to cut production costs and boost yields, fewer terraces would be built to hold soil on cropland, and less contour plowing would be done to limit erosion. Marginal land would be plowed out as farmers plant fencerow-to-fencerow to increase production.

On the other hand, it makes no sense to sit idly by while certain federal farm programs continue to subsidize the destructive cultivation of highly erodible land. Selectivity should rule the day as Congress shapes the 1985 farm bill, and as important decisions are made in the annual budget and appropriations processes. There is no question that agricultural spending has to be brought under control. Likewise, the erosion problem demands solutions. The time has come to link the dual needs; where reductions and realignments in federal funding are made, they should be driven at least to some extent by environmental protection criteria.

Establish a long-term conservation reserve.—Recognizing that a significant fraction of the nation's soil erosion originates on a disproportionately small acreage, it makes sense to seek the permanent retirement from crop production of some of our most erosion-prone land. The conservation reserve concept is based partly on the need for establishing erosion-resistant cover vegetation where conventional erosion control methods are simply unable to forestall on- or off-site resource damages.

A conservation reserve program would be both cost-saving and cost-effective. For instance, it has been demonstrated that a reserve program retiring tens of millions of acres of erosion-prone land could acually prove cheaper than current programs.[8]

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[6] See S. Batie and R.A. Kramer, "Cross Compliance Concepts in Agricultural Programs: The New Deal to the Present" (paper presented at the History of Soil and Water Conservation Symposium, U. of Missouri, Columbia) (May 23-26, 1984).

[7] Toward the Next Generation of Farm Policy, Staff Report, Joint Economic Committee, 98th Cong., 1st Sess. 27 (1984) (S. Prt. 98-171).

[8] See, e.g., American Farmland Trust, Future Policy Directions for American Agriculture, Washington, D.C. 89-98 (November 1984).

The investment in modest payments to retire land under long-term reserve contracts would be offset by reductions in production benefits that would otherwise apply, such as conservation cost-sharing expenses and annual diversion, deficiency and other commodity program payments. Moreover, there is strong evidence that a conservation reserve can yield more erosion control per dollar invested than existing USDA conservation cost-sharing mechanisms.[9]

The reserve concept becomes even more cost-effective when important long-range social benefits are considered. Indeed, a strong case can be made that a reserve would pay for itself many times over in foregone sediment dredging costs, in wildlife habitat enhancement and through the assurance of domestic food and fiber production over the long run. While we emphasize that erosion control would be the leading objective of the program, it is worth noting that the reserve could help the farm economy by reducing crop surpluses and elevating prices paid to producers.

NRDC is also encouraged by the prospects for increased wood fiber production on land that is not suitable for crop production. In this regard, the Soil Conservation Service reports impressive results in different parts of the country, particularly in certain southern states.[10] Conservation Foundation President William K. Reilly observes that "the South's timber industry is now benefitting handsomely" from federal programs under which trees were planted on erodible cropland during the 1950's.[11]

Enact overdue conservation initiatives.—We recommend that the farm bill include a strong policy statement that articulates a national commitment to the conservation of agriculture resources and the protection of environmental values affected by agriculture. Congress has spoken to this effect on several occasions including the Soil and Water Resources Conservation Act of 1977 (RCA) and the 1981 farm bill. Nevertheless, no national conservation policy now in place applies to U.S. government programs in general and directs all federal agencies to act in accordance with principles of sustainable agriculture.

The farm bill should strengthen the Farmland Protection Policy Act (FPPA) along the lines of S. 2004, legislation introduced in 1938 by Senators Jepsen, Leahy and Dixon. With clarifying amendments, the FPPA could be a more effective tool for reducing the federal role in the unnecessary and irreversible conversion of prime farmland to non-agricultural uses.

We urge Congress to remove disincentives to voluntary conservation by, for example, protecting the acreage bases of farmers who practice conserving crop rotations on their own initiative.

Finally, we wish to register support for H.R. 1383, newly proposed legislation similar to the Agricultural Productivity Act that passed the House in January 1984. The bill would initiate badly needed research in methods of reducing the need for intensive chemical use in agriculture.

THE TASK AHEAD

The task facing Congress in considering this year's farm bill is enormous and complicated by the gravity of the current farm crisis. In the search for economic solutions, however, we must not be blind to the environmental dimension of agricultural policy.

The problems cannot be expected to solve themselves. As hard as consensus on general farm legislation may be to achieve, the public and the environment are served poorly through stalemates and continued postponement of needed action like the sodbuster bill. The 1985 farm bill provides an ideal framework for constructive change; missing the opportunity would be tragic.

STATEMENT OF LAURENCE R. JAHN, VICE PRESIDENT, WILDLIFE MANAGEMENT INSTITUTE

Mr. Chairman: I am Laurence R. Jahn, Vice-President of the Wildlife Management Institute, which is headquartered in Washington, D.C. Initiated in 1911, the Institute's program is dedicated solely to the conservation and improved management of renewable natural resources.

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[9] American Farmland Trust, Soil Conservation in America: What Do We Have to Lose, Washington, D.C. 67 (1984).

[10] See USDA Soil Conservation Service, "Improving Forest Land Management," 4 Soil and Water Conservation News 3-9 (August 1983).

[11] W. K. Reilly, "Soils, Society, and Sustainability," 39 Journal of Soil and Water Conservation 289 (September-October 1984).

The Institute has cooperated with agriculture interests for many years to encourage sound soil and water conservation practices. We are pleased to do so again with respect to the 1985 Farm Bill. This legislation offers yet another opportunity to enhance stewardship of soil and water resources so vital to the welfare of this nation. Therefore, we strongly endorse the incorporation of conservation features in the 1985 Farm Bill.

The 1981 Agriculture and Food Act included a separate title (Title XV) on conservation. However, conservation initiatives were not written into the commodity portions of that law. And this has proven to be a serious weakness. The 1981 Act acknowledges the merits and values of conservation, but it has not stimulated use of constructive, practical actions to alleviate soil and water problems. That fault should be corrected in the 1985 Farm Bill.

To date, commodity objectives and conservation objectives have been treated as separate elements of the nation's agricultural program. However, they should go hand-in-hand, because soil and water conservation is a key element to sustaining commodity production.

After years of evaluating the role of conservation in agricultural commodity production, the Institute, other conservation organizations and state agencies developed recommendations (attached) to be considered for inclusion in future conservation/commodity programs. The policy and program recommendations are designed to:

1. Integrate conservation practices into USDA commodity programs through a policy statement (see attachment on "Policy"); and
2. Identify ways to improve commodity/conservation efforts, particularly in regard to acreage set-asides, and "sodbusting"-prevention programs.

The focus of these recommendations is to acknowledge the merits and values of conservation on America's farmlands and provide guidelines for developing agricultural policies and programs that benefit landowners and the general public as well.

The Institute requests that these conservation policy and program features be integrated throughout the commodity programs in the 1985 Farm Bill and Act.

In addition, we support strongly:

1. Establishing a long-term Conservation Reserve, to remove up to 30 million highly erodible acres from intensive row cropping. Agreement should be long-term, such as up to 20 or more years, whereby landowners would take currently or periodically cropped marginal land out of production and put it under suitable cover.
2. Developing, in response to state concerns, guidelines for "sodbuster" lands. Strict language should deny price supports and other subsidies to landowners and operators who grow crops on newly cultivated, highly erodible lands, especially in arid areas of the West.

Mr. Chairman, we thank you for the opportunity to present our recommendations on the important agricultural programs. We would be pleased to provide any additional information that the subcommittee may desire during consideration of this farm legislation.

PROGRAM FEATURES

1. Incorporate language in the 1985 Farm Bill to ensure that conservation features are integrated into commodity programs. There is a pressing need to focus on natural resource management. Criteria and guidelines should be included to hold soil losses below replacement rates.

2. Eliminate federal incentives, including tax credits, that encourage conversion of noncroplands to row crop production. Noncroplands should include acreages devoted to rangelands, grassed waterways, terraces, windbreaks, wetlands and other natural wildlife habitats.

3. Provide a more reasonable planning horizon for farmers and ranchers by requiring a multi-year acreage set-aside and/or conservation reserve program, such as up to 20 years, with a permanent feature for removing fragile, erosive lands from row crops.

4. If base acreages continue to be used for various commodities, require a long-term acreage set-aside on at least 20 percent of the current base acreage for each commodity (wheat, corn, feed grains, cotton, rice, etc.). The annual set-aside acreage for the last two decades has averaged 20 percent. In addition, examine and realign the criteria and use of the base acreage to be sure it promotes integrated conservation/commodity soil and water management.

5. Require that suitable cover be established on multi-year set-aside and/or conservation reserve acreages, by providing incentives, including funds, to help estab-

lish perennial vegetation. Established vegetation should be maintained by appropriate management throughout the contract period.

6. Require that the mowing or grazing of established vegetation be timed to benefit wildlife, such as nesting birds, except in counties where national emergencies are declared because of drought or other causes. This feature has been abused in the past.

7. Ensure participation of conservation, water quality, forestry, fisheries, wildlife and other interests in deliberations of and actions taken by USDA at national, state, conservation district and county levels.

8. Ensure broad public understanding of the realigned acreage set-aside and/or conservation reserve program, with strong emphasis placed on integrated commodity/conservation tillage.

9. Continue the policy of allowing landowners to manage recreational access, including charging user fees on set-aside and/or conservation reserve lands.

All of these elements recommended to improve the 1985 farm programs are consistent with the findings and options in the recent report entitled "Impacts of Technology on U.S. Cropland and Rangeland Productivity" provided to the Congress by the Office of Technology Assessment. Use of these elements would help realign basic USDA programs and encourage much greater application of conservation measures on lands needing attention immediately.

Overall, it is recommended strongly that commodity conservation objectives and results be linked more closely, such as through no-till and conservation farming. This is needed to correct and prevent soil erosion, maintain and restore water quality, and sustain production of wild living resources—while simultaneously producing food and fiber adequate to meet the nation's needs and a part of the export demand. Exports should be encouraged, up to a certain level, to help perpetuate needed markets. But the volume of exports should be defined, so that they can be accommodated without degrading the U.S. resource base.

An appropriately designed commodity/conservation program should help eliminate the use of taxpayer funds for inconsistent and ineffective agricultural programs and provide a reasonable planning horizon for landowners and land managers. A half century of experiences with agricultural commodity and conservation programs clearly shows that new policies, program dimensions and management practices are needed. To achieve improvements, there must be realignments to integrate fully multiple considerations in coordinated, consistent federal/state/local efforts. The pressing challenge for all natural resource professionals, landowners and operators, and other interested citizens is to translate current knowledge into effective resource management laws, policies, guidelines and field applications. By integrating conservation and commodity programs, there is hope for sustaining the productivity of the nation's resource base, in the best interest of the resources, the public and the country as a whole.

POLICY

A half century of experiences with agricultural commodity and conservation programs show clearly that new federal policies, programs and management practices are needed to integrate fully conservation dimensions in to USDA commodity programs. Although conservation features have been included in past agricultural price-support and adjustment programs, few have operated effectively to prevent and correct soil erosion, maintain and restore water quality, and sustain and restore production and survival of wild living resources, including soil organisms.

Congress reaffirms its policy to ensure the provision of adequate supplies of agricultural products and services to meet the needs and desires of the nation's people, as well as to encourage exports of agricultural commodities at levels that can be accommodated while maintaining the immediate and long-term productivity of the U.S. resource base.

Agricultural programs shall be based on the principle of sustainable use of the resource base through productive multiple-benefit management. Land and water conservation plans and actions are to be designed to achieve national and state public objectives, as well as objectives of individual landowners and operators.

Congress hereby establishes the following policies/guidelines to assist federal and state agencies, including Soil Conservation Districts, in providing education, technical and financial assistance—including credit and loans—to private individuals and groups in carrying out land and water management programs and practices. The overall objective is to achieve consistency among the various national programs and promote sustained productivity of agricultural and natural resources. All federal agencies and independent national agencies, such as the Tennessee Valley Authority, hereby are required, individually and collectively, to use this U.S. strategy and develop internal regulations and public information to:

Correct, prevent and minimize soil erosion, with the objective of keeping soil losses within acceptable tolerance limits for particular soil types and situations, thereby ensuring productive and sustainable agricultural and other uses of lands;

Maintain and restore water quality to perpetuate the physical, chemical and biological integrity of the waters of the United States and to meet the national goals for water quality set forth in the Federal Water Pollution Control Act; and

Sustain production and survival of wild living resources.

Congress hereby directs all federal agencies, and the U.S. Department of Agriculture in particular, to focus special attention and appropriate management practices on delineated areas having severe and/or chronic problems related to erosion, water quality or wild living resources. Procedures and management practices shall be designed with intergovernmental coordination to restore and maintain the productive capacity of the nation's lands, waters and wild living resources, and thereby perpetuate the quality of life for all Americans.

STATEMENT OF MICHAEL HELLER, REPRESENTING CHESAPEAKE BAY FOUNDATION

Mr. Chairman, Members of the Committee, my name is Michael Heller and I am representing the Chesapeake Bay Foundation.

The Chesapeake Bay Foundation (CBF) is a nonprofit conservation organization of over 23,000 members in the Bay region. CBF is staffed by 45 scientists, attorneys, educators and conservationists, who are actively involved in promoting the wise and responsible management of the Chesapeake Bay.

I am going to concentrate my testimony on two specific issues: (1) the Conservation Reserve for highly erodible lands and (2) agricultural expansion into wetlands or the "swampbuster" provision. I will relate each of these issues to the regional situation of water quality problems in the Chesapeake Bay.

One of the issues of interest to CBF is agricultural non-point source pollution of the Bay and the impact that farm conservation programs can have on this very critical problem. CBF is uniquely qualified to address this issue, because not only can we speak from a water quality perspective, but as owners and operators of a 300 acre farm, we recognize the problems that farmers face on a daily basis. This balanced perspective on problems both faced by farms and caused by farms allows us to speak confidently on agricultural issues.

AGRICULTURAL ACTIVITIES EFFECT THE CHESAPEAKE BAY

As you may be aware, the Chesapeake Bay is presently faced with severe water quality problems, primarily due to excessive nutrient enrichment. The Environmental Protection Agency's five-year study of the Bay pointed to agricultural runoff, in the form of sediment, nitrogen and phosphorus, as one of the major sources of this enrichment.

In fact, the EPA study demonstrated that cropland in the Chesapeake Bay basin contributes 27% of the phosphorus and 60% of the nitrogen coming into the Bay during an average rainfall year. These percentages jump to 53% for phosphorus and 75% for nitrogen during a wet year. For some rivers draining into the Bay, these nutrient loadings are even more pronounced. For instance, 60% of the phosphorus and 85% of the nitrogen carried by the Susquehanna to the Bay in an average rainfall year comes from cropland.

Much of this agricultural non-point source pollution can be reduced by effective soil conservation techniques. Any bill or regulation which can control excessive soil loss from cropland will have definite water quality benefits for the Chesapeake Bay or any receiving waters.

TRADITIONAL SOIL CONSERVATION PROGRAMS WILL NOT SOLVE THE ENTIRE PROBLEM

As farm manager of our southern Maryland farm I am acutely aware that no farm can be at its economic peak if it is losing significant amounts of soil and fertilizer. If both economic and water quality reasons dictate wise soil and fertilizer conservation practices, why is the problem so difficult to remedy?

The answer lies in large measure in the limited means available to encourage control of agricultural runoff. A Maryland Agricultural Task Force, including Maryland's Secretary of Agriculture, was asked to make recommendations for controlling agricultural runoff. In its 9-page report the Task Force states that the only solution is to work with landowners on a one-to-one basis in developing and implementing soil conservation and water quality plans. The Task Force further notes that to accomplish this in Maryland will take a minimun of 10 years even with the additional 42 soil technicians which the State has provided in its initiative to clean up the Bay. Thus, Maryland even though committed to dealing directly with the problem, will not be able to significantly reduce soil erosion for a long period of time.

We are well aware of the time-consuming process of developing and implementing a soil conservation plan since we are now doing this with our farm. We have been working closely with the Soil Conservation Service for 3 years, but are only halfway there. If anything, we feel an estimate of 10 years to complete plans on all farms is optimistic. This is extremely disconcerting for two reasons: (1) in that 10-year period there will continue to be substantial problems with soil and fertilizer runoff to the detriment both of farms and water quality, and (2) in 10 years many of the plans will have become obsolete as better techniques are developed and as crop emphases change.

CONSERVATION RESERVE COULD STOP 50 PERCENT OF THE EROSION PROBLEM

Consequently the concept of a Conservation Reserve similar to the one being supported by the American Farmland Trust, the National Audubon Society, National Association of Conservation Districts, and others is very exciting to us because it offers an immediate and targeted approach to deal with a severe problem in the Bay region. A thirty-million-acre conservation reserve should be created to encourage farmers to convert highly erodible croplands to less erosive uses such as pasture or timber.

The Conservation Reserve is attractive from our perspective as farmers in three ways: (1) it is voluntary, (2) it would provide individual farmers a modest income from marginal land which is difficult to till, and (3) it would reduce the surpluses of commodities such as corn and wheat, thereby increasing the market value of these commodities.

As environmentalists, we are concerned with water quality and believe the Conservation Reserve program could do more than any other measure to reduce agricultural runoff in the Bay region in a reasonable time period. Based on preliminary estimates from the National Resources Inventory conducted by the Soil Conservation Service in 1982, about 1,000,000 acres of farmland that drain into the Chesapeake Bay are classed as highly erodible and would be eligible for the Conservation Reserve. This land which is less than 10% of the total agricultural land accounts for more than 50% of the erosion. The Conservation Reserve would give the Soil Conservation Service a tool for targeting the problem areas, rather than taking the cumbersome approach of blanketing farms with conservation plans, which though effective in the long term does not effectively deal with the problem quickly.

Eligibility of land for the reserve should be determined by the Universal Soil Loss Equation and the Wind Erosion Equation as described in testimony presented by the American Farmland Trust. There has been some discussion as to the merits of using the Land Capability Classification versus the more accurate and objective Universal Soil Loss Equation and Wind Erosion Equation. The only argument raised against the use of the two equations is that they have never been used before for this purpose, and lack of familiarity with the equations could slow efforts to determine eligibility. Just recently in Maryland the Soil Conservation Service (SCS) has adopted use of the Universal Soil Loss Equation to determine eligibility for federal agricultural cost-sharing programs. Our local SCS agents believe it is a very efficient tool and find it easy to use. We firmly believe the equations are the fairest and most effective means to determine land eligibility for the Conservation Reserve.

STOP THE AGRICULTURAL CONVERSION OF WETLANDS

In addition to the Conservation Reserve, the Chesapeake Bay Foundation is in support of a variation of the Sodbuster provisions of the Farm Bill known as the swampbuster provisions. The swampbuster provisions are aimed at slowing the conversions of valuable wetlands to agricultural lands. In a 1984 report, the office of Technology Assessment estimated that 550,000 acres of wetlands are lost each year in the United States. The report estimated that agricultural conversions account for 80% of these wetland losses. The value of wetlands is well documented for wildlife habitat, flood control, shoreline protection and water quality.

The proposed swampbuster provisions would deny farm program benefits, such as price supports, crop insurance and low interest loans, to those individuals or corporations making agricultural conversions of wetlands. It should be stressed that reducing land conversions to agricultural use would not have a major impact on the farm economy. Farmers, in recent years, have been paid to take land out of production because of crop surpluses. It makes no sense in this era of farm surpluses to support the destruction of valuable wetland areas through a misguided U.S. Farm policy.

In conclusion we resolutely support the concept of a strong conservation reserve program, both as farmers and as environmentalists. In addition, we support any federal provisions which would discourage the conversion of sensitive lands, such as wetlands and highly erodible lands, to agricultural uses. We urge the Committee to give favorable consideration to including such measures in the farm bill package.

STATEMENT OF MICHAEL J. BUDZIK, REPRESENTING THE OHIO WILDLIFE MANAGEMENT ASSOCIATION AND THE OHIO CHAPTER OF THE WILDLIFE SOCIETY

Mr. Chairman: I am Michael J. Budzik and I am speaking for the Ohio Wildlife Management Association and the Ohio Chapter of The Wildlife Society.

We, along with six other Ohio organizations interested in conservation, strongly support the eight recommendations of the Natural Resources Council of America. (I have included the recommendations and list of supporting organizations for the record.) Our experiences in Ohio will provide insight into the necessity for strong conservation measures in the 1985 Farm Bill.

According to the U.S. Departments of Interior and Commerce, the 1980 National Survey of Fishing, Hunting and Wildlife Associated Recreation in Ohio illustrated that $1.1 billion was spent on wildlife recreation. Approximately $104 million was spent for non-consumptive wildlife recreation (e.g. bird watching), $300 million was spent for hunting, and $700 million was spent for fishing. As you can see, expenditures by wildlife recreationists make a significant contribution to Ohio's economy. Sound conservation measures incorporated in the 1985 Farm Bill will help protect—and in fact increase—this important industry.

During the past 25 years in Ohio, approximately 2.5 million acres of grass crops grown for seed, hay crops, and lightly grazed pasture have been converted to row crops. This has resulted in severe population declines (up to 90%) in farmland wildlife that require grass/legume nesting cover.

Federal farm policy is the largest single element affecting soil conservation and farmland wildlife in our state. Grassland conversion and concurrent wildlife population declines are the direct results of federal farm policy failure. Farmland wildlife population levels and distribution are directly linked to federal cropland retirement programs due, in part, to the significant acreages involved. Mr. Risley, who co-authored this statement, and I have worked closely with the various USDA agencies over the past six years and recognize serious shortcomings in current farm policy that you have the opportunity to correct in drafting the 1985 Farm Bill.

The first and foremost problem is the lack of federal farm program stability. The key to getting conservation on the land is prohibiting the conversion of noncropland to cropland and removing erosion-prone cropland from production on a long-term basis. Since the demise of the Soil Bank Program of the '60's, the Wheat and Feed Grain Programs are the only programs to remove a significant amount of Ohio's cropland from production. Unfortunately, these programs have failed to live up to their billing in influencing total crop production, and have varied greatly from year to year, minimizing any conservation features incorporated. How can the landowner establish any type of semi-permanent cover, which normal ly takes two years to establish, on so-called "Acreage Conservation Reserve" land when the rules and incentives are changed annually? To further reduce conservation benefits, the rules are often changed after the game has started. Sign-up dates are extended, target prices are changed, and cover requirements are altered every year. The net result is very little high quality cover on idled land. A conservation reserve of approximately 30 million acres for a minimum of 10 years should be integrated into all commodity programs.

Conservation requirements in crop diversion programs are a source of great frustration and result in minimal benefits. Enforcement of seeding requirements is erratic and management standards are variable. To keep in compliance, farmers are sometimes forced to put seed in the ground at a time when they know it has little chance for success. This fosters disdain for government regulations and weakens the credibility of the programs. All aspects of the federal farm programs should require conservation seedings and have seeding date requirements that allow for a reasonable chance for success . . . and those requirements should be enforced.

Contradictory regulations also weaken or destroy many conservation benefits. Several references to wildlife in the Wheat and Feed Grain Program are caught in this dichotomy. We read in one section of the program that mowing is to be timed to benefit wildlife, but another section requires that "weeds" be controlled. Many ASCS personnel interpet this second section as an order to mow everything prior to seed formation. In Ohio, seed formation and the pheasant nesting season coincide; thus, mowing produces no wildlife benefits. Several ASCS County Committees in Ohio interpet a "noxious weed" as "anything that ain't corn or soybeans." The simple insertion of "noxious" prior to weeds and better definition of noxious weed could give us the flexibility we need to increase wildlife benefits. There should be coordination among water quality, forestry, and fish and wildlife agencies and other like groups to guard against such actions.

Mr. Chairman, we need a stable, long-term federal farm policy based on sound agronomic principles. Our state has made a long-term commitment, projecting to spend more than $68 million dollars over a 25-year period to reestablish grass/legume cover in Ohio's intensively farmed region. That program, combined with a federal farm bill integrating conservation features, will not only benefit farmers and wildlife, but will serve all citizens by maintaining this country's greatest asset—our soil.

THE "AGRICULTURE, FOOD, AND NATURAL RESOURCE MANAGEMENT ACT OF 1985": CHALLENGES AND OPTIONS—PREPARED BY THE AGRICULTURAL TASK FORCE, NATURAL RESOURCES COUNCIL OF AMERICA—JULY 1984

Agricultural policy must be improved in the 1985 Farm Bill to effectively integrate conservation features into commodity programs. Consistency must be achieved among national programs to encourage sustained production of a wide range of benefits from agricultural products and natural resources.

A major objective of U.S. farm policy since the late 1920's has been to encourage the production of adequate supplies of food and fiber so as to maintain reasonable prices for U.S. consumers, while at the same time, assuring farmers a fair return on their investment. Toward this aim, the Federal Government has operated a series of commodity programs designed to stabilize supplies and support farm prices and producers' income. Although commodity programs have been substantially revised over the years in response to changing economic conditions, many current programs retain features that were initiated during the 1930's. Experience shows that short-term policies and crash programs have not adequately resolved soil and water problems resulting from major changes in human population and natural conditions.

The farm programs use a variety of methods to support prices and stabilize supplies. Four measures commonly employed are direct payments, commodity loans, acreage reductions, and export promotion. The latest major revision of authority for farm programs occurred in late 1981 with the enactment of the Agriculture and Food Act of 1981. This legislation, with subsequent amendments, provides the current framework for commodity, price and farm income support programs through 1985. The review and renewal of farm legislation in 1985 generally is recognized as an opportunity to realign and improve American agricultural authorities, policies and programs for the next decade.

WHAT IS A FARM BILL?

The most important piece of legislation to American agriculture is the Food and Agricultural Act, generally known as the Farm Bill. It has been traditionally enacted with 4-year provisions, and the current bill expires 31 December 1985.

This omnibus legislation covers mainly commodity programs, but it also contains conservation, credit, rural development, and a wide variety of research authorizations. In short, it can touch on just about any USDA program or function. The 1981 Farm Bill has 18 titles, such as dairy, wheat, feed grains, cotton, sugar, grain reserves, exports, food stamps, research, and credit. Of major interest to conservationists is Title XV, Resource Conservation, but there are resource programs contained elsewhere as well.

1. Incorporate language in acreage set-aside programs and the 1985 Farm Bill to ensure that conservation features are integrated into commodity programs. There is a pressing need to focus on natural resource management. Criteria and guidelines should be included to hold soil losses below replacement rates.

2. Eliminate federal incentives, including tax credits, that encourage conversion of noncroplands to crop production. Noncroplands should include acreages devoted to rangelands, grassed waterways, terraces, windbreaks, wetlands and other natural wildlife habitats.

3. Require a multi-year acreage set-aside on at least 20 percent of the current base acreage to include the most highly erodible cropland for each commodity. In addition, examine and realign the criteria and use of the base acreage to be sure it promotes intergrated conservation/commodity soil and water management.

4. Provide a more reasonable planning horizon for farmers and ranchers by requiring a long-term conservation reserve, such as up to 20 years, with permanent features for removing fragile, erosive lands from cropping.

5. Require that suitable cover be established on multi-year set-aside acreages, by providing incentives, including funds, to help establish perennial vegetation. Established vegetation should be maintained by appropriate management throughout the contract period.

6. Require that the mowing or grazing of established vegetation should be timed to benefit wildlife, such as nesting birds, except in counties where national emergencies are declared because of drought or other causes. This feature has been abused in the past.

7. Ensure participation of conservation, water quality, forestry, fisheries, wildlife and other interests in deliberations of and actions taken by USDA at national, state, conservation district and county levels.

8. Ensure broad public understanding of the realigned acreage set-aside program, with strong emphasis placed on integrated commodity/conservation tillage.

9. Continue the policy of allowing landowners to manage recreational access, including charging use fees on set-aside lands.

NRCA members may wish to help design a 1985 Farm Bill which promotes natural resource conservation. A time table for farm bill activities is difficult to construct. However, a bill can be expected to be introduced in January and hearings are likely to start in February. There is a possibility that important activity may be initiated late in 1984. Key organizations will monitor the situation and alert NRCA members if action is needed.

The Agricultural Task Force of NRCA wishes to help establish a link between the conservation community and agricultural interests. If your organization is interested in working toward common interests in agricultural policy and legislation, please contact Jack Berryman, Task Force Chairman, International Association of Fish and Wildlife Agencies, 1412 16th Street, N.W., Washington, D.C. 20036; phone number (202) 232-1652.

Historically the Farm Bill has been enacted through a complex compromising process, where individual members of Congress get commodity provisions important to their districts by trading votes with compatriots concerned about other sections. That process, many observers feel, may be inadequate to resolve the complex issues facing American agriculture in 1985 and provide a fully integrated multiple-benefit program.

Most of the major sections begin in subcommittees at least a year in advance of the Farm Bill, and hearings are often held to establish a legislative record. After the election, the Agriculture Committee leadership will begin to have the staff draw these sections together into an omnibus bill. Consultants are often hired to assist with this drafting, much of which is very technical. Many of the sections are amendments or extensions to existing law. Frequently, it takes an individual with in-depth understanding of farming to decipher how many features of the law will actually work.

An emerging consensus of conservation and agricultural interests has identified a need to design commodity program features which encourage, rather than penalize, farmers willing to carry out sound soil conservation practices. Just how this needed change will be addressed in the 1985 Farm Bill is open to debate. But, for the first time, serious discussions of conservation implications may be heard during debates on commodity provisions. If this happens, as anticipated, conservation organizations may need to assign full-time "committee-watchers" to keep informed of the opportunities to encourage integration of conservation features in commodity programs all along the way.

CONSERVATION ISSUES IN CURRENT AGRICULTURAL POLICY

Few conservation features have been integrated effectively into agricultural policy to prevent and correct soil erosion, maintain and restore water quality, and sustain and restore production and survival of wild living resources. Obstacles to conservation include:

1. Base acreages, deficiency payments, tax loopholes and other items stimulate producer actions that are inconsistent with multiple-benefit, sustainable ag-

riculture, and discourage soil, water, and wild living resource conservation objectives and benefits.

2. Soil conservation programs are not targeted effectively to areas of critical need while maintaining a strong base program nationwide.

3. Current export policy does not ensure the immediate and long-term productivity of the U.S. resource base.

4. Private groups and individuals are not receiving adequate educational, technical, and financial assistance from federal and state agencies in carrying out land and water management programs and practices.

Current consideration of "Sodbuster" legislation (H.R. 3457 and S. 663) will be key. If those bills do not become law, the three issues they address are certain to be central in the Farm Bill debate. These three issues are:

1. Sodbuster provisions. Farmers who plow up new marginal soils would become ineligible for a variety of federal payments.

2. A voluntary set-aside. Farmers who set aside cropland during nonprogram years by planting it to grass and/or legumes could have their base acreages protected from penalties in case a new program is instituted.

3. A conservation reserve. Farmers cropping erodible soils could enter a multi-year contract to convert those fragile acres to grass or trees for economic uses. Federal cost-sharing would help ease the costs of conversion.

Other issues likely to appear that have significant conservation implications include:

1. Integrating commodity and conservation features in various agricultural programs by requiring landowners to meet some soil and water management criteria in order to be eligible for receiving federal funds under the economic support programs.

2. Modifying base acreage calculations so that farmers do not feel compelled to grow cash crop monocultures to retain their crop "histories" on the land to qualify for price supports.

3. Developing a "positive" approach which would allow farmers who apply an approved conservation system on their land to qualify for bonuses in the economic support programs.

4. Accelerating research on natural resource topics.

5. Extending the Soil and Water Resources Conservation Act (RCA) due to expire in 1985.

A major issue, and the most difficult to follow, will be the philosophical debate underlying the whole federal policy thrust in agriculture. Will we continue to promote exports, and essentially take government out of the business of controlling crop and commodity supplies, or will we take the approach of tighter controls on crop production? Farm bill observers will need to closely monitor this and report regularly to conservation groups, who may not have the time nor the expertise to stay close to the action. When it appears that a "philosophical direction" has been established, the range of politically viable conservation alternatives will become much more sharply focused.

OPTIONS

Existing authorities, guidelines and procedures need to be realigned to design an integrated program for providing food, fiber, fish, wildlife and other products from agricultural lands on a sustained-yield basis. Base acreages, deficiency payments, tax benefits and other items stimulating actions inconsistent with multiple-benefit sustainable agriculture, should be changed to promote common objectives for soil, water and wild living resource conservation. A number of options exist to achieve this end. The following features, if included in future commodity/conservation programs, would go a long way toward achieving agricultural land conservation goals.

AGRICULTURAL TASK FORCE, NATURAL RESOURCES COUNCIL OF AMERICA

Jack H. Berryman, Chairman, International Association of Fish and Wildlife Agencies, 1412 Sixteenth Street, N.W., Washington, D.C. 20036 (202) 232-1652.

Norman A. Berg, Soil Conservation Society of America, Suite 601, 1717 Massachusetts Avenue, N.W. (202) 483-0044.

Charles L. Boothby, National Association of Conservation Districts, 1025 Vermont Avenue, N.W., Suite 703, Washington, D.C. 20005 (202) 347-5995.

Thomas M. Franklin, The Wildlife Society, 5410 Grosvenor Lane, Bethesda, Maryland 20814 (301) 897-9770.

Robert J. Gray, American Farmland Trust, 1717 Massachusetts Avenue, N.W., Suite 601, Washington, D.C 20036 (202) 332-0769.

Rexford A. Resler, American Forestry Association, 1319 Eighteenth Street, N.W., Washington, D.C. 20036 (202) 467-5810.

Maitland S. Sharpe, Izaak Walton League of America, 1701 North Ft. Myer Drive, Suite 1100, Arlington, Virginia 22209 (703) 528-1818.

W. Alan Wentz, National Wildlife Federation, 1412 Sixteenth Street, N.W., Washington, D.C. 20036 (202) 797-6800.

R. Neil Sampson, Consultant, 5209 York Road, Alexandria, Virginia 22310 (703) 971-8238.

Laurence R. Jahn, Ex Officio, Natural Resources Council of America, 1101 Fourteenth Street, N.W., Suite 725, Washington, D.C. 20005 (202) 371-1808.

The following nonprofit Ohio organizations are on record as supporting the strong conservation recommendations drafted by the Natural Resources Council of America for integration into the 1985 Farm Bill.

Ohio Wildlife Management Association—An educational and informational organization of biologists, administrators, educators and others interested in conservation of Ohio's wildlife and related resources.

Soil Conservation Society of America, All-Ohio Chapter—An association of professionals and students in a wide variety of natural resource related fields dedicated to wise use of our soil with 435 members.

Ohio Environmental Council—A federation of 70 diverse conservation organizations interested in environmental issues.

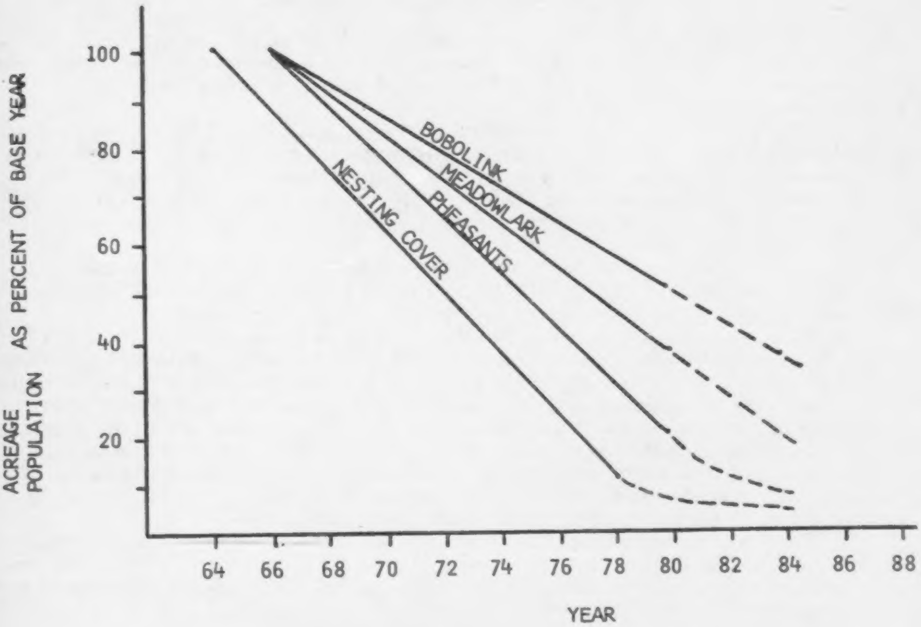
The Wildlife Society, Ohio Chapter—An educational and information organization of biologists, administrators, educators and others interested in conservation of wildlife and related resources.

Ohio Farmers Union—This organization strives to be the legislative voice of the family farmer with 10,000 members.

Ohio Federation of Soil and Water Conservation Districts—A federation of soil and water conservation district boards, primarily farmers, interested in conservation of our soil and water resources.

American Fisheries Society, Ohio Chapter—A professional society of fisheries biologists, administrators and educators interested in aquatic resources and their wise use and management.

League of Ohio Sportsmen—A National Wildlife Federation affiliate of 100 sportsman's clubs interested in wise use of our natural resources.



CHANGES IN SPRING POPULATION LEVELS AND AVAILABLE NESTING COVER IN OHIO FROM 1964-1980.

TABLE 1. PERCENT OF SET-ASIDE ACRES FOUND TO BE IN NEWLY SEEDED AND ESTABLISHED SEEDINGS DURING THE 1983 FIELD SURVEYED IN 12 MIDWEST STATES. COVER ESTABLISHED ON ONE YEAR PROGRAMS TYPICALLY RESULTS IN POOR QUALITY COVER (FROM AL BERNER, MINNESOTA DEPT. OF NAT. RES.).

	NEWLY SEEDED[a]			ESTABLISHED COVER[b]		
		QUALITY RATING[c]			QUALITY RATING	
	%	P-F	G-E	%	P-F	G-E
COLORADO	13.8	69.0	31.0	0.4	50.0	50.0
ILLINOIS	65.0	85.6	14.4	5.2	12.8	87.2
INDIANA	44.5	63.2	36.8	29.6	54.3	45.7
IOWA	63.4	84.2	15.8	9.9	26.7	73.3
MICHIGAN	7.9	83.8	17.2	12.3	54.1	45.9
MINNESOTA	24.6	95.5	4.5	1.4	38.2	61.8
MISSOURI	7.6	48.6	51.4	3.8	20.0	80.0
NEBRASKA	12.2	89.5	10.5	5.3	61.6	38.4
NORTH DAKOTA	4.0	100.0	0.0	0.0	0.0	0.0
OHIO	83.9	68.0	32.0	3.1	69.2	30.8
SOUTH DAKOTA	11.0	94.6	5.4	4.0	14.0	86.0
WISCONSIN	49.8	96.4	6.3	14.6	16.3	83.7
MEAN[d]	32.1	83.6	16.4	6.2	35.6	64.4

[a] SEEDINGS PLANTED IN FALL OF 1982 OR SPRING OF 1983.

[b] PERENNIAL SEEDINGS PLANTED IN SPRING 1982 OR BEFORE.

[c] PERCENT IN POOR TO FAIR (P-F), AND GOOD TO EXCELLENT (G-E).

[d] WEIGHT MEAN.

STATEMENT OF JIM LOCKETT, PRESIDENT, OKLAHOMA FARM BUREAU, REPRESENTING AMERICAN FARM BUREAU FEDERATION

My name is Jim Lockett, and I am a rancher in Fairfax, Oklahoma. I also serve as President of the Oklahoma Farm Bureau and as a member of the American Farm Bureau Federation's Board of Directors. I am here today on behalf of the American Farm Bureau Federation.

The American Farm Bureau Federation is the largest general farm organization in the United States representing over 3.3 million families in about 2,800 counties in 48 states and Puerto Rico. It is a voluntary, nongovernmental organization representing farmers and ranchers who grow virtually every commercially produced agricultural commodity in this country and who operate more than 75 percent of the nation's commercial farms and ranches.

We appreciate the opportunity to testify on conservation provisions which we believe should be included in the 1985 Farm Bill. We are calling for two sections in the conservation title, a conservation reserve and a sodbuster provision.

Farm Bureau has been working with other interested groups and the Congress for almost four years to adopt some type of a sodbuster bill. Our members were very concerned when the concept originally surfaced that it was simply a "back-door approach" to cross compliance, and we continue this opposition. But we believe the sodbusting of highly erodible lands is so severe that we have to discourage the practice. We continue to oppose legislation which mandates what a farmer can or cannot do with his land, but we do not believe it is right to plow up highly erodible land and then ask for government assistance when production fails.

Farm Bureau's sodbuster program contains these provisions:

1. That any person who produces an agricultural commodity on newly-broken highly erodible land on a field on which such highly erodible land is the predominant class shall be ineligible for assistance for all commodities produced by that person during that crop year.

2. Federal assistance denied includes:
    a. Price support, assistance, or production adjustment payments.
    b. Commodity Credit Corporation loans for the construction or purchase of a facility for the storage of the commodity.
    c. Crop insurance under the Federal Crop Insurance Act.
    d. Disaster payments.
    e. An FmHA loan, if the Secretary determines that the proceeds of the loan will be used for a purpose that will contribute to excessive erosion of highly erodible land.
3. Ineligibility for assistance would not apply to:
    a. Any land cultivated to produce any of the 1975 through 1984 crops.
    b. Any crop planted before date of enactment of the bill.
    c. Any crop planted during any crop year beginning before the date of enactment of the bill.
    d. Any loan made before the date of enactment of the bill.
    e. Any crop produced using a conservation system that has been approved by a soil conservation district.
4. Provides for an appeal procedure for an individual who believes his highly erodible land has been misclassified.

Mr. Chairman, you will note that Farm Bureau does not use the Soil Conservation Service land capability classification system to define highly erodible lands. When debating the sodbuster program, our members strongly stated that this concept should not be used. We are leaving the definition to the discretion of the Secretary, but we hope that before the Congress finishes consideration of the 1985 Farm Bill, it will take a serious look at the USDA's new system to classify land using the Universal Soil Loss Equation and taking into account wind erosion factors.

The second conservation provision which Farm Bureau would like to see implemented in the 1985 Farm Bill is a conservation reserve. Under the reserve program, the Secretary would be required to offer owners and operators of erosion-prone cropland long term contracts of 7 to 15 years to assist them in conserving the soil.

Under the conservation reserve, the producer's rsponsibility would be to put into practice a conservation plan approved by the conservation district for converting erosion-prone cropland normally devoted to the production of an agricultural commodity into a less intensive use. Such use could be in the form of pasture, permanent grass or legumes, or trees.

In return, the Secretary agrees to:

1. Provide technical assistance to carry out the conservation measures.
2. Share the cost of carrying out the conservation measures.
3. Pay an annual land rental fee on those acres of erosion-prone cropland that are placed in a conservation use.
4. The amount of land rental to be paid for the conservation of erosion-prone land would be based on a priority system of those that will result in the lowest cost to the government when calculated on the basis of several relevant factors.
5. Payments for the land rental fee may be made in cash or in commodities.

Mr. Chairman, let me point out two additional items concerning our conservation reserve proposal. We have already indicated our opposition to using the land capability classification system in the sodbuster section and would likewise oppose its use in a conservation reserve. Again, we would urge a careful look at the USDA's Universal Soil Loss study.

In addition, our members across the country had quite a debate on the merits of allowing haying and grazing on conservation reserve acres. Livestock producers opposed that idea and many others supported it saying that allowing haying and grazing would reduce the per acre bids to buy out the land and, therefore, would result in more acres being put into a conservation reserve. Our members came to a compromise position which we believe merits your careful consideration. Our bill calls for the producer to choose whether he plans to hay or graze prior to his bid to participate. If he selects to hay or graze, he still receives cost-sharing assistance to put perennial grasses in place, but he foregoes annual land rental payments.

Our projection on the cost of a conservation reserve indicates the four year total for 15 million acres would be about $2.5 billion. This assumes a $70 average establishment allowance, a $40 per acre average annual rental payment, and that about one-fourth of the producers in the third and fourth years would elect to hay or graze those acres and would therefore not receive annual land rental payments.

While some groups are pushing the conservation reserve as a production adjustment program, we hesitate to assume much decreased production would occur. While the reserve might decrease production slightly, we see minimum reductions in the costs of the production programs. Because of that assessment, we have not included those in our cost estimate of the conservation reserve.

We believe our proposals regarding the conservation reserve and sodbuster provisions recognize the importance of maintaining a productive soil resource within a fiscally responsible farm bill.

Mr. Chairman, we appreciate the opportunity to testify today.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chairman and members of the Committee, my name is David Senter. I am National Director of the American Agriculture Movement, Inc.

I appreciate the opportunity to come before you today and speak on the subject of soil conservation.

We read daily of the tremendous loss of our nation's topsoil—the cream of our farms—to erosion caused by wind and water. It is very disturbing to me to also read words written by some misinformed news reporters that farmers are allowing the erosion to take place. Until farmers get a fair price for their commodities, they cannot afford to carry out needed conservation practices.

I will not deny that too much erosion is taking place. However, I must object very strongly to the proposal circulated by OMB to close the Soil Conservation Service. These people would sell our future to save a few dollars more.

Erosion of our nation's precious farms has been caused by the asinine agriculture policies that we have allowed to prevail for the past thirty years—a policy which has removed the farmer's ability to show a profit in his farming operations. Today we are seeing worse erosion than during the dustbowl of the 30's. Each day 26 square miles of our best topsoil is blowing or washing away. We see 2,100 acres of grassland plowed out each day that Congress delays action on Sodbuster legislation. We mustn't wait.

Good soil conservation practices—whether it be chiseling, contouring, terracing, drainage, wind breaks, idling of acres, grass seeding or whatever—are costly. And those costs can only be paid with profits from a farmers other farming practices, since there is no harvest on conservation acres.

There is nothing that hurts a farmer more than to see his farm destroyed by erosion, and have to stand helplessly by and watch it happen. But this is what we are seeing happen today. To do anything today costs money, and when a farmer must make the choice of whether to buy shoes for the kids or fuel for the tractor to stop a field from blowing, you know what his decision is going to be.

Yes, you and I have allowed this situation to exist. We have sat idly by while thousands of farmers were going broke. We knew it was happening. Thousands of farmers were here in Washington in 1978 and told us. They were back in 1979 with thousands of tractors and told us. They were back in 1980 and 1981 but no one listened. Wait, they were told, and let our program work! Well, they waited and waited—and waited! And now our farms—your farms—our heritage is being carried away by the winds and rains because we failed to adopt a policy which would restore a profit to agriculture.

And what has been the reaction of this administration to the problem? Scrap the only program which has worked successfully for the benefit of every citizen in our nation—the Soil Conservation Service.

Certainly it is operating under extreme conditions—too few funds to meet the accelerated needs—but is the answer "throw the baby out with the wash?" I think not!

My advice to you is to keep what we have and for you, the members of the committee, to become dedicated to the task of educating every one of your colleagues in Congress to the need of permanent legislation which will assure agriculture a profit—a fair return on capitol, labor and management—in order that our farmers can once again become the good husbandmen of the soil that they have proven to be in the past.

The burden of responsibility is on your shoulders—only you can accomplish this goal.

The AAM recommends that instead of cutting conservation programs, we expand them to targeted projects. AAM supports establishing a 5 to 10 year conservation reserve designed to remove highly erodible land from production. We urge a continued push to put in place sodbuster legislation to deny farm program benefits to operators that plow out new lands. We believe that benefits should be denied on all of the operators production. We also encourage sanctions be transfered with ownership of the land to prevent corporations from selling to other corporations to get around the program.

Above all we must see that the proposal to close the Soil Conservation Service does not come to pass. Mr. Stockman will sell our future generations' ability to produce to save a few dollars today. AAM for one will not sit by and allow this unanswered.

Thank you Mr. Chairman.

STATEMENT OF HERB EDMONDS, NATIONAL PRESIDENT, NATIONAL ASSOCIATION OF FARMER ELECTED COMMITTEEMEN

Mr. Chairman and members of the committee, I am Herb Edmonds, President of the National Association of Farmer Elected Committeemen, (NAFEC), and wish to thank you for the opportunity to testify before this committee as it considers agricultural legislation.

The decisions made by this committee and in turn by the full Congress will have a far-reaching effect upon not only the agricultural community but upon every American in the years ahead.

The membership of our association is composed of present and former county and community committeemen and have been elected by their peers, the same people that elect you to your position. You were elected by your constituents to serve in this Congress in the best interest of the general public. We are elected to administer the farm programs at a local level. As such, we are in a unique position for judging the relative merits of farm programs. Our regular membership is composed of just those committeemen that have been elected by their neighbors who know them best to oversee and implement those programs at the local level in the best interests of the general public.

Our members are involved personally in other farm organizations and commodity groups, as we span the nation with membership and organization. We represent every agricultural endeavor and commodity from Point Barrow, to the keys of Florida, and from Aroostook County, Maine, to the big island Hawaii.

Since our organization began in 1965, 75 percent of the resolutions that were adopted by our membership, in annual meetings, have been accomplished. This can only be accomplished by a non-partisan group working together nationally in the best interests of all our citizenry.

NAFEC reaffirms strong support for the administration of Federal farm programs by the farmer elected committeemen of this Nation. We would urge the Congress and the administration to expand the present programs and assign additional new farm related programs to the farmer elected committee system through the Agricultural Stabilization Conservation Service (ASCS). We believe this can be accomplished at a reduced cost to the Federal Government as we are all conscious and desirous of economy in government. These savings can come by the combining of Federal programs thereby eliminating many overlapping expenditures, especially in the area of administration costs. We would like to point out, however, that in the last eleven years, the net farm income has declined by almost 30 percent. Farmers' interest costs have increased by over 240 percent.

While the gross value of their crops have increased only 2 percent. We have taken our share of cuts while others have prospered and this cannot continue. We can in no way support any legislation that further depresses farm income.

As you consider new farm legislation, NAFEC supports the supply management concept through mandatory controls on all program crops with loan and support rates maintained at present or higher levels, adjusted annually to reflect "real" cost of production.

NAFEC supports the establishment of a "normal crop acreage base" established with a five year cropping history, and the ability to interchange acreages up to a maximum of 20 percent in any one year.

In recent years we have seen food used as both a weapon and a peace keeping tool. Even though new laws prohibit singularly embargoing food items, our credibility as a reliable supplier is still in question. Unfortunately, this means that the United States continues to be a residual supplier to many foreign markets. For these reasons, NAFEC urges the continuation of the farmer-owned grain reserve program. Grain held in the country by producers is a deterrent to erratic prices. Farmers take grain from the reserve over a staggered period of time as their individual situation and economic condition dictates. Grain held in reserve in various places throughout the Nation also serves as a safe-guard in case of national emergency. A longer period of time for grain to come out of the reserve, once it is released, is necessary to improve the effectiveness of the Grain Reserve Program.

The Grain Reserve Program would not have been possible or had any degree of success without the farm storage facility loan program. To further facilitate the Grain Reserve Program, NAFEC would urge the expansion of the Farm Storage Facility Loan Program. This can be achieved by keeping the interest rate at the same level as charged to the Federal Government. In this manner there would be no financial drain on Federal funds as all monies loaned would be repaid with interest.

The late 1970's saw the creation and expansion of the All-Risk, All-Commodity Crop Insurance Program; however, because of developmental problems and lack of response to farmers needs, the coverage available has been inadequate, expensive, and much too cumberstone to serve the farmers needs.

The administrative record of ASCS has been demonstrated, and in fact, in recent months FCIC has begun to use ASCS established yields and acreage data to calculate their insurance coverage and premiums. It is our belief that the farmers of our Nation would be better served if ASCS were assigned the responsibility of selling the insurance and administering the Crop Insurance Program.

With an increasing population and a decreasing amount of prime farm land in this Nation, one of the greatest concerns of this committee is obviously the protection of our soil and water resources. Five hundred million dollars was authorized by Congress in 1936 for the Agricultural Conservation Program.

Economists tell us that $30 billion dollars would be required today to equalize the value of $500 million dollars in 1936. Instead of the $30 billion, or even the $500 million dollars, this program has been allowed to deteriorate to a funding of only $190 million dollars for the past few years. The program has perhaps been misunderstood. The benefactor of the program is the consumer that has become accustomed to a steady, reliable, and nutritional supply of food products at the local supermarket. That food supply is in jeopardy if we do not begin now to conserve for future needs. The ACP Program can help to insure that flow of food for our grandchildren when they have children of their own. ACP is a proven Federal program in which approximately 50 percent of the cost is shared with the farmer when installing soil and water conservation practices, which he would be unable to perform without cost-share assistance. These practices are generally of a long term nature and seldom recover the individual's limited investment. What is needed, in addition to the $190 million dollars, is: (1) a long term land retirement program targeted to highly erodable soils and incorporated with a supply management price support program; (2) no further payment limitations on the commodity programs and expansion of the ACP payment limitations to $5,000 per farm unit for matching funds. A few critics of ACP believe that individual States can solve their own soil and water conservation problems. Fifty different States with a multitude of different conservation needs and with a disproportionate distribution of population cannot provide the overall solution to this problem, which should be presently or will be in the future, the concern of every citizen of this Nation.

We also realize that the success of the ACP Program is due in part to the technical assistance offered by the Soil Conservation Service, and their continued support is necessary.

In conclusion, let me again thank you for this time to appear before you. If I can answer any questions you may have, I would be delighted to do so.

Thank you.

STATEMENT OF BERNARD J. LISKA, PH.D., DEAN OF AGRICULTURE, PURDUE UNIVERSITY, AND PRESIDENT, INSTITUTE OF FOOD TECHNOLOGISTS,[1] CHICAGO, IL

Chairman Helms, and distinguished members of the committee:

Thank you for inviting me. I am Dr. Bernard J. Liska, Dean of Agriculture of Purdue University. I appear here today as President of the Institute of Food Technologists, a professional scientific society of 22,000 members. Food science members of IFT apply scientific research to learn more about the physical, chemical and biological properties of the foods that nourish us all. Food technologists apply this knowledge in food companies, in universities and for federal and state governments to provide this nation with a wholesome, nutritious, safe, appealing and economical food supply.

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[1] Note: An Executive Digest of Proceedings of the IFT "Workshop on Research Needs" is appended. The workshop was held November 10-14, 1984, and forms the basis for this testimony.

I appreciate this opportunity to share with you today the deep concerns of this nation's food scientists and technologists about the deteriorating status of food science—- value-added (or postharvest technology)—research in this country. I also wish to support several solutions to the problem—solutions that were developed by an IFT-sponsored workshop in which 175 scientists applied their knowledge and ideas to this critical situation.

Our decline in food science leadership, extending the past two decades or more, has resulted in the United States' losing its competitive edge to foreign manufacturers. As a result, the U.S. has relinquished by default to foreign nations and businesses the initiatives this country once enjoyed in developing technologies for producing foods. We now buy a good deal of our technology from foreign countries. This in turn means that the U.S. has given up jobs, incomes, returns on investments and tax revenues to those other countries—jobs and dollars that should have stayed at home to work in this country. It means the value added, roughly tripling in food processing, is yielded to others. And it means higher food prices for American consumers.

But perhaps more is at stake here than now is generally recognized. This strong and increasing penetration by foreign firms and their products into our food processing plants and grocery stores puts our entire agriculture and food system at risk to other nations. It tends to undermine the security of this truly vital resource—by relinquishing policy decisions to other nations.

Also somewhat at risk is who determines a significant aspect of the future health of the citizens of this country. Increasingly we are recognizing the vital role of nutrition and dietary choices in enhancing health and offsetting diseases. We are learning more about this daily. In the long run, a sound nutrition policy can and will ensure a more healthy populace. In turn, over time a more vigorous, longer-lived population can significantly reduce rising health care costs and help reduce dollars now needed to support the elderly and infirm. Food science and food technology ensure that our foods are maximally nutritious. Research determines these nutritional factors. Is this country to abrogate such research and critical decision-making to others?

Six years ago, the Institute of Food Technologists began examining why foreign manufacturers were making such inroads into markets that had been American. We formed a Committee on Research Needs to attempt to discern what had happened to our food science and technology. It rapidly became clear that we had not kept pace with aggressive research and development being carried out in other countries. It also became obvious that the Japanese and many European manufacturers were, in some cases, seizing on American inventions, developing them, and licensing them back to American food companies—at substantially higher costs than if we had done this ourselves.

The following table shows, as an example, trends in the purchase of food processing machinery in the United States:

FOOD PROCESSING MACHINERY

	1972	1977	1979	1981	1982	1983
Exports	$103.8	270.5	365.5	508.3	459.6	322.0
Imports	65.7	248.6	324.2	432.0	534.4	439.2

Source: IFT Report, from federal data.

This trend varies across categories of equipment. In 1983, purchases of high-speed packaging machinery from Western Europe, Canada and Japan constituted 70 percent of all food machinery imports. Over half of meat and poultry packaging machinery and two thirds of bakery machinery have been imported in recent years.[1]

More clouds appear on the horizon. In an examination IFT carried out, industry observers reported that daily product machinery is undergoing revolutionary upgrading and bears a standing watch.

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[1] Barrington, L. F., 1984. "Food Technology—Innovation, Development and Transfer; A Preliminary Examination of Development and Trade in Food-Production Machinery and Foodstuffs," Institute of Food Technologists, Chicago.

FOREIGN-DEVELOPED TECHNOLOGIES

Foreign manufacturers and technologists now work vigorously to refine still other products, processes and technologies, many of which were originally developed in this country. And, as Dr. Marcus Karel of MIT has observed, "They'll sell them back to the United States—at twice the price."

Dr. E. R. Wedral of the Nestle Company recently examined a number of these examples:

High Fructose Corn Syrup (HFCS), which converts starch into the fructose sugar now so popular with diet-conscious Americans, was initally developed in the United States in the 1950's. In the 1960's, the Japanese seized on this, commercialized the technology, and then licensed it back to U.S. companies. The importance of this development to our national food supply lies in the rapidly increasing extent to which HFCS is replacing sucrose (or cane and beet sugars) in our foods.

Supercritical CO_2 extraction is a technique used to selectively dissolve and separate certain components from a food. The Germans developed it in 1960, and the Japanese are at work to improve it at the present time. Dr. Wedral reports that some work with supercritical CO_2 extraction can remove half the fat from potato chips, an evolving technique.

Membrane Technology employs filters to separate components in food, increasing both the quality of the products produced and the efficiency of the process. It permits products to be concentrated without changing the functional properties of their proteins. It's used in cheesemaking, for example, and has the potential for considerable use in fruit and vegetable concentrates. It was invented in Europe and its use is spreading around the world.

Robotics. Here is an area of technology that is just beginning to make inroads in food processing. With our know-how, this country should certainly be in the forefront in this field. But Dr. Wedral noted, "The Japanese, as well as the French, have done a greal deal of mechanization/commercialization here, and are far ahead of the United States in this area."

Irradiation was conceived and developed in this country in the 1950's shortly after World War II. U.S. food technologists demonstrated the efficacy and safety of irradiation to preserve heat-sensitive foods without destroying freshlike qualities. Today, more than 40 different food products are irradiated in countries around the world—but not here. Our lag may be due more to regulatory, rather than technological, backwardness however—this country is just entering the process.

Packaging is a dynamic field, rife with developments. Again, most innovations arrive at our shores, rather than emerge from our research laboratories. Just one example illustrates the case: Aseptic packaging techniques insert foods into containers under sterile conditions so that foods will not spoil (and retain freshlike quality) at room temperatures up to several months as long as the seal is unbroken. Aseptic packages exist in many forms: cans and bottles, pouches, cups and cartons. Aseptic concepts originated in Denmark in the 1920's, were touched upon in this country in the 1940's, and brought into the market through Swedish technology in the 1960's. One estimate is that aseptic packaging will be used for half of all juice and fruit drinks marketed within the next 10 years.[2]

JAPANESE MAY DOMINATE FOOD PROCESSING

The balance has now tipped dangerously to the advantage of modern food processing techniques refined by European and Asian firms. One industry observer, Richard Rakowski of Princeton Technologies, said recently that the Japanese could become the world's low-cost food producer. In fact, he warned that the Japanese will "outclass U.S. food manufacturers just as they have done in the steel, auto, camera and electronics industries."

At IFT, the Committee on Research Needs discovered that current U.S. research efforts in food science, hampered by lack of money, are inadequate, acutely mission-oriented and generally short-ranged—at a time when we desperately need to strengthen the scientific base for America's food industry and strive to re-establish competitive leadership for this country.

But why is the erosion occurring? Why do we permit aggressive foreign firms to take our edge and our markets from our farmers and our food companies?

We discerned many reasons. One compelling causative factor rests with negative shifts in research funding, which inexorably lead to declines in productivity.

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[2] Wedral, E. R., 1984. "Overseas Influence on U.S. Food Technology," Food Technology, Vol. 38, No. 1, pp. 85–91, 113.

The federal Interagency Research Subcommittee correctly observed this in preparing its document, "Research: Background for 1985 Farm Legislation." It states:

"Annual changes in productivity for food processing and distribution over a recent 25 year period are:

	Percent change per year
1952-72	.074
1972-77	−.418

(Note the sharp decline beginning in 1972.)

The federal background report continues:

"These productivity changes are obviously quite different from those which have occurred in production agriculture over a similar time period. In addition to a low investment in research and development in the food processing and distribution sector, the other cause of poor productivity gains is a tendency toward monopolistic pricing—for both the labor input and final products (Connor et al., 1984). Strong competition within and between firms encourages faster adoption of labor-and capital-saving technologies."

This report concludes: "Improved technologies are badly needed in processing[3] and packaging, storage and handling, and transportation."[4]

This report also notes that, of the gains of technology, (such as they are), "in contrast to production agriculture. . .most have had their origin in the private sector rather than the public sector."

In the public sector, in the fifteen years 1966 to 1981, post harvest technology research—including marketing economics—declined by one fifth (20 percent) in real dollars.[5]

Within the food industry, the picture is not much better.

Compared to other industries—many of which also suffer from the diligence and the determination of foreign firms to penetrate U.S. markets—the U.S. food industry has not been a heavy investor in research. Here is how our major industries line up in research spending:

R&D EXPENDITURES OF SELECTED U.S. INDUSTRIES

	Percent of sales	Percent of profit	Dollars per employee
1980[1]:			
Drugs	4.9	51	3,466
Instruments	4.2	77	2,142
Auto	4.0	−98	3,264
Electronics	2.9	56	1,584
Chemicals	2.4	45	2,478
Industry average	2.0	38	1,834
Cosmetics, Soaps	1.8	30	1,847
Food	0.6	16	530
Textiles	0.5	18	235
Fuels	0.4	7	1,774
1983[2]-84[2]:			
Drugs	6.7	39.7	5,704
Instruments	5.5	80.9	3,563
Electronics	4.3	64.7	2,690
Chemicals	3.0	39	3,867
Industry average	2.8	33.3	3,081
Auto	1.7	37	1,340
Cosmetics, Soaps			
Food	0.8	10.8	972
Textiles	0.7	17.6	494
Fuels	0.6	6.2	2,869

[1] Karel, M., 1982. "Technological Achievements and Trends in Food Processing, Storing, Transportation and Handling by Consumers," MIT Industrial Liaison Program Report, Massachusetts Institute of Technology, Cambridge, MA 02139.

[2] Business Week, March 22, 1985. pp. 164-190.

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[3] Russo, J. R., 1985, "Food R&D in Danger," Prepared Foods, p. 9.

[4] U. S. Department of Agriculture, Research Subcommittee, 1984. Research: Background for 1985 Farm Legislation, Washington, DC.

[5] Office of Technology Assessment, 1983. Agricultural Postharvest Technology and Marketing Economics Research, A Technical Memorandum, Congress of the United States Office of Technology Assessment, Washington DC., p. 36, 65-66, ff.

The food industry is not as heavy an investor in research as are some industries—automobiles and instruments, for example—already challenged by foreign manufacturers. A primary reason is that food producers operate on very low profit margins. Further, food companies maintain that much of their R&D expenditure is directed by federal legislation and regulation into so-called "defensive" research—to meet various nutritional content, shelf-life, labelling and similar regulations.

IFT WORKSHOP: RESEARCH REQUIRED

Against this background, the Institute of Food Technologists conducted a workshop on research needs to determine what kinds of research are required to restore the U.S. industry's competitive edge. We continue to analyze the situation and develop postures, policies and procedures to correct the imbalance.

Our workshop was conducted intensively over two and a half days in November, 1984. To obtain and apply to this situation the best minds possible, we invited IFT members to nominate potential participants. More than 800 nominations were received. From this, 175 leaders in industry, academia and government research and development were invited to contribute their keen insights and seasoned perceptions as to what research is required over the next two decades.

Their recommendations comprise a list of more than 40 major R&D thrusts, in seven topical areas. These areas are: food preservation and processing, automation, biotechnology, diet and health, food safety, environmental issues, and human resource (personnel) needs.

I will not go into detail here in each of the seven areas, but rather will submit the general findings and conclusions of the 175 participants, including the high priority research programs identified as critically essential. (Highlights of the Workshop Proceedings are presented in an attachment to this testimony.)[6]

U.S. AID WOULD HELP FARMS, UNIVERSITIES

American farmers feel their government has let them down. They have worked hard for decades, with the help of plant and animal scientists, to develop high efficiency and unparalleled productivity. Now in the grip of economic forces they cannot control, many face ruin. Yet, with assistance from the federal government, these same farmers could continue making their great contributions to the U.S. food supply.

Similarly, educators involved in food technology, food research scientists and food processing and distributing firms all face a growing threat from foreign economic interests. We at the Institute of Food Technologists recognize that the individual states, professions and companies have much responsibility for remedying the situation. But we and this country can be—and should be—greatly assisted by the federal superstructure that has, in part, created this deterioration through misdirected funding, bureaucratic blindness, and superannuated regulation.

RECOMMENDATIONS

Therefore, to assist farm programs, the American consumer, and U.S. food industry, we would like to make the following recommendations for the Committee's and the Congress' consideration:

1. In the 1985 Farm Bill and other pertinent legislation, recognize the key role of food science and technology, and the critical need for improved research and development. Specifically authorize increased R&D funding, earmarked for food science and technology, by $50 million for FY 1986, $150 million for FY 1987, and $250 million for each succeeding year.
2. Encourage the USDA, and within it the Agricultural Research Service and the Cooperative State Research Service, to strongly incorporate food science and technology research in their external programs. They must recognize that to do so is to help farmers sell their products.
3. Separate food science and technology institutionally within ARS and CSRS from marketing economics research. Considering them together clouds the issues.
4. Encourage the USDA to include four to six food scientists and technologists, especially from the academic community, on its Joint Council on Food and Agricul-

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[6] Institute of Food Technologists, 1985. Nurturing America's Food Research—An Agenda for Action, Proceedings of the Workshop on Research Needs (in press).

tural Sciences. There is now but one, from a single industry. USDA's 1986 Priorities for Research, Extension and Higher Education document reflects this lack: Not one of its top nine priorities even recognizes food science or food processing.

5. Encourage and support review of food regulations to bring them up to date, so that food producers and corporate research funding can be freed for application to advance science and technology, instead of being used to defend these producers against outmoded and outdated regulatory constraints.

6. Ensure that the Departments of Health and Human Services and of Agriculture recognize and incorporate active roles for food scientists in their nutrition programs. Food science and human nutrition are inextricably linked. Also ensure that the Interagency Coordinating Committee on Nutrition Research publishes reports and issues data promptly.

7. Recommend that USDA integrate value-added research into the competitive grants systems, recognizing that such research augments the expected returns from biotechnology and other R&D efforts.

8. Recognize the need for scientifically trained food scientists by refusing to cut educational funding and training grants. Encourage the National Science Foundation to specifically fund fellowships for food scientists and technologists, and increase research grants for this field.

AFFORDABLE INVESTMENTS

It is, of course, bad form to seek a greater federal deficit. We also recognize that many competing claims exist for finite resources. Rendering a more fertile social and political atmosphere in which food science and technology may be revitalized need not, however, exert a net cost. Within existing budgets, funds can be redirected. Within agencies, personnel shifts and structural realignments can be made. Further, any number of options exist for improving the overall fiscal climate for food science. In general, tiny incremental increases in efficiencies and/or reductions in wastes in large budgets would more than fund these food science programs. Beyond this, when our competitive edge is re-established, public sector investment in these programs will more than pay for themselves in jobs, balance-of-payment improvements and increased tax returns. We have set our minds and our wills to the task. We ask that this committee and the Congress assist us, and the country, by concurring in the above remedies.

Thank you. I will be pleased to answer your questions.

Executive Digest of Major Findings

IFT WORKSHOP SETS PRIORITIES FOR FOOD RESEARCH NEEDS

Improved productivity in food processing, coupled with more nutritious, wholesome and healthful products on grocers' shelves in the decades ahead were among achievements foreseen from research specified as essential at a November, 1984 invitational workshop of the Institute of Food Technologists. Participants also forecast development of new foods and the need for better training for future food scientists. The theme underlying all conclusions was the essential need to develop means to improve the competitive strength of the U.S. food industry.

Reflecting the expanded use of automation, genetic engineering techniques, broadening of food safety and environmental regulations, and heightened awareness of the consumer in food and nutrition issues—the 180 workshop participants listed seven general goals most critical to revitalize the food industry's technnlogical capability. These action-goals were condensed from some 40 topics these food scientists targeted for consideration in seven intense, concurrent sessions which reflect major specializations within food science.

Workshop scientists listed seven priority needs that accent both technology development and fundamental research. They placed near-term emphasis on the development of process and product technologies with potential to provide critically needed gains in productivity within the food industry:

A. Technology development needs

1. Develop innovative technologies for improving food processing systems by various improvements, especially including adoption of promising biotechnologies, which aim to assure, and in many cases, to restore a competitive edge for this country in international trade.

2. Develop technologies which will improve raw agricultural commodities and final food products: Improved animal, plant and microbiological sources of food in-

gredients would provide attractive options for consumer food products. These improvements would meet the increasing diversity of dietary needs and choices.

Paralleling the need for markedly improved technologies in the short-term is a longer-term need to strengthen the scientific pillars upon which food science and related fields are built. Participants thus identified some critically needed basic research.

B. Fundamental research needs

3. Increase the understanding of the physical, chemical and biological properties and structures of foods and related materials. This anticipated understanding will make it possible to control the properties of materials-in-process as well as finished foods.

4. Develop innovative analytical procedures. Such methods should be: rapid, nondestructive, simple, continuous/automated, on-line and inexpensive.

5. Increase understanding of the mechanisms which control biological activity to improve food quality, enhance safety, reduce cost, and to harmonize industrial practices with environmental considerations.

To permit correct judgments and timely action, greatly expanded efforts in data collection are required.

C. Data collection needs

6. Obtain and evaluate critical data related to health/nutrition and safety (chemical and microbial). Some necessary data exist and must be systematically collected and interpreted. Other crucial assessments and measures are yet to be made, to clarify questions about foodborne disease or issues which concern nutritional supplementation some individuals may require.

A preliminary overview of resource needs illuminated the uncertainty about actual demands for research staff and research facilities. Not only do the estimated demands call for attention, but also any identified inadequacies in technology will require corresponding remedies. These requisites were tied to a corresponding need to improve means of effective dissemination of food science information.

D. Education, training and communication needs

7. Determine the human-resource needs, and devise programs to meet these needs and the related goal of educating the general public through effective dissemination of findings related to food science and nutrition.

Effective education correlated closely with implementation aims, and attendees accordingly took note of cooperative training ventures that might be established to attack selected programmatic needs, while also forging a more superior skill base.

Food science programs which would reflect appropriate consideration of the foregoing seven priority items would add more than $275-million to the annual investment in food R&D in the U.S., which currently totals some $90-million. Workshop contributors pointed out, however, that current funding for food research is considerably less than comparable funding for other sectors of the economy; it is not commensurate with the $300-billion industry built on food technology. Increased investments in food science—perhaps reflecting a 25% increase immediately, with follow-on annual increments—would prepare the nation and its varied food industry to meet the changing nutritional and food needs of the American people and prepare the nation with stronger answers to the threats of imports and to related export opportunities.

Participants costed out the 42 individual research programs the workshop deemed to be minimally essential over the next decade. By topic area, these costs per year are as follows:

Innovative methods of preservation and processing—$92 million/year for 10 years.
Automation—$63 million/year for 10 years.
Biotechnology—$10 million/year for 10 years.
Diet and health—$10 million/year for 10 years.
Food safety—$35 million/year for 10 years.
Environmental issues—$13 million/year for 10 years.
Human resources—$50 million/year for 10 years.
Total for all programs—$275.6 million per year.

Participants did not specify sources of funding, only that these were the minimal amounts required in each topic area to undertake that research which would tend to restore state-of-the-art technological capability and efficiency in each discipline. Costs include personnel, laboratories, equipment, materials, data acquisition and computing, and communication.

NURTURING AMERICA'S FOOD RESEARCH: AN AGENDA FOR ACTION

PROPOSED AREAS OF RESEARCH

Innovative preservation and processing

*1. Characterize molecular and structural properties of foods and define how these properties affect processing, storage and acceptance of foods.

*2. Determine the molecular and cellular basis of the inhibition and control of biological action/activities in food . . .

3. Develop novel processes . . . from emerging technologies.

4. Develop improvements in the utilization of old and new biotechnologies in food processing.

5. Model the important process parameters and their composite translation into food properties.

6. Tailor food composition and material properties to fit special nutrient needs of individuals.

7. Develop encapsulation techniques for multicomponent foods . . .

Automation (process engineering)

*1. Develop basic understanding of the chemical, physical and transport properties of food ingredients, products, process aids and packaging (to improve productivity).

*2. Develop sensors and monitoring systems for food process control.

3. Improve design and operation of food processing systems.

4. Develop robotic techniques (for the food industry) for rapid handling of fragile, non-uniformly shaped products.

Biotechnology

*1. Improve understanding of the structural/functional relationships of food materials by applying biotechnology principles.

*2. Improve quality of food products or the utilization of fed nutrients by applying genetic engineering (principles and practices) to plants and animals.

3. Strive for advances in recombinant DNA technologies to improve regeneration, propagation and transformation procedures for major agricultural crops.

4. Improve speed and reliability of cell-culture analysis, esp. including non-invasive techniques.

5. Increase basic knowledge of processing to isolate, characterize and use enzymes in food processing.

6. Advance understanding of the genetics and biochemistry of microorganisms used in food . . .

7. Advance, master and employ biotechnology methods as measures to assure food safety.

Diet and health

*1. Methods (including computerized data retrieval) for rapid determination of food components.

*2. Elucidation of the role of food components in health, permitting measurement of risks . . .

3. Identify factors in food selection, as well as the effects of consumption of certain foods on specific physical, physiological and mental functions.

4. Document and define nutrient requirements for effective functioning throughout life . . .

Food safety

MICROBIAL

*1. Better preservation methods.

*2. Surveillance of foodborne disease.

3. "Emerging" agents of foodborne disease.

4. Rapid and reliable analysis of foods for microbial and related toxins.

5. Means to determine safety of foods from new biotechnology processes.

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*Identified as top priority by Workshop group.

CHEMICAL

*6. Improved collection of data on the patterns and paths of human exposure to various components of foods.

*7. Assurance of suitable methods of toxicity testing . . .

8. Methods for communicating information . . .

Environmental issues

*1. Identify and apply measures to modify or reduce damage to raw materials prior to processing and to change in-plant processing, to reduce waste loads.

*2. Devise and develop methods to incorporate residuals into finished products and value-added by-products.

3. Develop new sanitizing/cleaning agents and procedures.

4. Make careful and thorough determinations of the composition and properties of process waters and waste waters . . .

5. Devise and develop methods to recover soil amenders and fuel values from food process residues.

Human resource needs

*1. Determine the demand for food researchers during the next ten years . . .

*2. Devise and apply innovative and diverse forms of recruitment to draw a greater number of more fitting applicants for undergraduate and graduate programs in food science.

3. Upgrade the curricula and research faculty in food science departments, requiring 12 or more research-teaching positions in doctorate-granting departments.

4. Improve and enlarge the body of fundamental knowledge about foods, through increased investment in relatively basic research.

5. Increase the opportunities for continuing education for food researchers, and improve adequacy of these opportunities.

6. Develop closer working relationships between academia, government and research management in the food industry, to improve mutual awareness and understanding.

7. Expand the use of student cooperative programs or summer intern programs, to help attract highly qualified students to enter the food science curriculum.

Statement of Peggy Wheeler, Public Affairs Director, National Center for Appropriate Technology

Mr. Chairman, Members of the Committee, my name is Peggy Wheeler. I am the Public Affairs Director for the National Center for Appropriate Technology. NCAT is a private, non-profit organization which provides technology transfer services, primarily on renewable energy and energy conservation technologies. We handle federal, state, and local contracts in this regard.

I am here today to speak to the need for more thorough research and technology transfer of farm and rural resource management technologies including soil, water, and energy conservation and maintenance, waste and land systems management. I have reviewed Title 14 of Chairman Helm's farm bill and was pleased to note the language stating that 50% of 3–d Extension activities and of Competitive research grant activities must go to small and moderate-sized farming operations.

Such language has been needed for a long time. It is difficult to justify the amount of research and extension time devoted to assisting problems related mainly to large scale farming or which encourage the shift to large-scale farming. The moderate sized farms need the most help currently in figuring out better, less costly technologies for farming in order to reduce input costs, or in managing their assets for the optimum net income possible, whether that means changing or diversifying crops, finding better markets, or lowering input costs. The small farms in this country are our most creative, usually being the first to adopt new crops, new technologies, and provide the best labor opportunities. For these reasons, these two sets of farm sizes need the attention of research and extension if our agricultural system is to strengthen through creative diversity, through good management, and through resource maintenance.

I support retention of this language in Senator Helm's bill, but feel that an additional emphasis on research and a Center for Appropriate Technology Transfer for Rural Areas on resource management technologies is needed. By placing a heavier emphasis on technology transfer of technologies that will conserve and preserve our resources by using them most efficiently while encouraging their regeneration, farm and rural operating costs can be reduced or provide more net income. Since two such important achievements—resource management and input cost reduction—can be achieved simultaneously through use of specific technologies, I pose that we should do all we can to encourage the use of these technologies by farmers and rural communities and the research and development of technological improvements in these fields.

I further support the need for research on agricultural policy impacts on agricultural structure and the interrelated impacts of agricultural technological developments on the economic, social and environmental base of our rural areas. Little is really known, in a conclusive way, about the impacts of particular research developments on the loss of towns, farms, change in farm size, economics of farming and food distribution. Since we all experience the impacts of the results of farm and town loss, of land ownership pattern changes, and food processing and distribution methods, it would seem useful to have a better understanding of the relationships between research and policy decisions and the impacts on the local level.

Later in my testimony I include suggested language to cover these agricultural policy, and resource management research and technology transfer needs. First I will try to provide a brief overview of the resource management problems and solutions as I see them.

During the 1970's, resource management became a commonly used term for many reasons. We experienced the impacts of a sudden leap in fossil fuel prices. The increased costs of imported oil filtered through our entire industrial, agricultural, transportation, and domestic systems. The costs of energy-intensive farm inputs, such as petroleum-based chemicals and fuel for farm machinery, and the costs of operating rural communities increased very noticeably. Our heavy dependence on an unstable energy source became clear as our infrastructure systems showed their vulnerability.

Concurrently, our society learned a great deal more about the impacts of soil erosion and water pollution resulting from farm practices such as the use of soluble nitrogen fertilizer and highly toxic pesticides. We began to question the sustainability of our food and water supplies.

The 1980's are bringing these concerns into a sharper focus. In addition to the environmental and human health concerns connected to these resource issues, and in addition to the rational questions being asked about the long-term sustainability of our agricultural and energy systems, the economics of these systems are becoming unjustifiable. Crop yields and commodity prices are not compensating farmers for the high costs of the inputs needed to continue such a chemical- and energy-intensive form of agriculture. The high costs to rural communities of energy use in buildings, waste management, unplanned land development, and water and highway cleanup of agricultural chemical and soil sediment pollution are also becoming apparent.

Rural communities also are running up against competing demands for resources, making resource management even more costly and complex. Water supply problems are beginning to pose economic difficulties in addition to availability problems in the midwest to southwest and along our Pacific and Atlantic coastal areas.

WATER SUPPLY

Irrigation is the largest user of water in America, accounting for 80% of water consumption and 50% of withdrawals in the Western states. Sixty one million acres of cropland are irrigated in the United States, with 50 percent being irrigated from stream diversions or on-farm wells, and 42 percent being irrigated from irrigation projects. Almost half of the Western United States is suffering water supply problems already, with predictions of much greater deficiencies in the near future due to increased multiple demands.

Irrigation water accounted for 68 percent of all groundwater withdrawals in 1984. The Ogallala aquifer, which lies under portions of eight states from South Dakota to Texas, supports one-fifth of the irrigation cropland in the United States. This water, stored for thousands of years, recharges very slowly. Hydrologists estimate that the aquifer is now half-depleted under Kansas, New Mexico, and Texas. These depleted levels, along with increased pumping costs and low commodity prices have resulted in a 7 percent reduction in irrigated cropland in the states that use the Ogallala most heavily for irrigation. But the remaining irrigated cropland continues to deplete the Ogallala even further.

Many other aquifers are experiencing similar depletions. The water table has fallen over 50 meters in some areas of Tuscon, Arizona, and more than 120 meters in the Dallas-Fort Worth, Texas area. Unless water conservation technologies and better water management are put to immediate use, this aquifer depletion will continue at its rapid pace.

There are numerous technologies and management techniques that can improve this situation: water-conserving irrigation systems, improved lining and piping, better control structures, heavier irrigation management, covers for farm ponds, water reuse, increased use of dryland farming in semiarid areas, and diversification of crops to encourage production of arid-climate crops. A federal Interagency Task Force estimated that 11 million acre-feet of water diversions used for irrigation in the Western states could be conserved through various off-farm and on-farm improvements. These savings equal about 7 percent of all Western water withdrawals for irrigation.

The Arizona State Land Department has started a farm demonstration project that is showing the potential for water conservation in irrigation. The 1500 acre farm is located in an area in which rapid urban growth has resulted in serious overdrafting of water supplies and the subsequent abandonment of 400,000 acres of irrigated farmland over the last 5 years. The objective of water management on the farm is to allow high crop yields while withdrawing groundwater at a rate equal to or less than its natural recharge rate. Using various standard and innovative water conservation techniques, successful results have been achieved for cotton and alfalfa production. Compared to conventional production, water consumption for cotton has been reduced 50 to 83 percent, and pumping and diesel costs have been reduced 52 percent. Yields have been maintained at 90 percent of conventional yields. For alfalfa, yields have remained constant, while water consumption has been reduced 78 percent, and pumping and diesel costs have been reduced 79 percent.

Numerous policy analysis studies have shown that current water pricing and water laws contribute to inefficient use of water. The U.S. Bureau of Reclamation found that increasing the cost of Western irrigation water from $1 to $3 an acre-foot to $10 per acre foot improved on-farm water efficiency from less than 40 percent to over 60 percent. Further studies have shown that farmers' knowledge and understanding of water-conservation and dryland farming techniques is poor and results in less use of these technologies.

WATER POLLUTION

In recent years, cases of groundwater and surface water pollution have increased due in part to agricultural chemicals, pesticides, herbicides, and nitrates, percolating down into the groundwater or running off into surface water. In Miami, Florida, residents are concerned about groundwater pollution in their drinking water supply, the Biscayne aquifer, a porous, rocky aquifer covered only by a thin layer of sandy soil, which leaves it vulnerable to contamination. Nine out of every ten Florida residents depend on groundwater for drinking. Various pollutants, some known to be carcinogens, have been discovered in the Biscayne aquifer. This aquifer also supplies the agriculturally-rich southern Dade County, where farmers pulverize the rocky aquifer in order to grow tomatoes, mangoes and other vegetables. Since this rocky substance has little nutrient content, the farmers use heavy infusions of chemical fertilizers, which readily infiltrate the aquifer.

Iowa residents have recently become concerned about the quality of their drinking water since numerous tests of groundwater and surface water have shown nitrate levels above or approaching federal health standards. Iowa news articles have warned mothers of "blue baby" syndrome, which may result when young babies ingest high levels of nitrates. Though no fatalities have occurred, infant ingestion of high levels of nitrates can be fatal. However, piglets in Iowa have died recently from this very condition, after drinking contaminated water. Des Moines, Iowa is currently receiving federal Superfund money to address their nitrate pollution problem.

An Iowa Geologic Survey study of Big Spring Basin, Clayton County, Iowa, also detected measurable levels of the pesticides Atrazine, Bladex, Lasso, Dual, Dyfonate and Dieldrin in ground and surface waters. The study's investigators estimate that about 5 percent of pesticides applied in the basin area are being discharged into the water each year, and anywhere from 35 to 80 percent of applied nitrates are being discharged. The nitrate concentrations in groundwater were found to increase in direct proportion to the level of nitrogen fertilizer used. In 1968, 13 ppm of nitrate were found in the groundwater, compared to 45 ppm in 1983—a 250 percent increase. During the same period, nitrogen fertilizer use within the basin area increased 250 percent.

Other studies have shown suprisingly high pollution levels in rural drinking water supplies. An EPA study finished in mid-1982 showed that 63% of rural Americans, or 39 million people, are drinking water that exceeds federal health standards for at least one contaminant. Most of these people rely on private wells for their drinking water. The study results showed that Lindan, a toxic insecticide, methoxychlor, mercury, cadmium, lead, and nitrates were detected at excessive levels in various rural areas.

Reports of farmers unable to drink their well-water or use it for livestock because of high pesticide and nitrate levels have surfaced in Indiana and New York. These farmers have been forced to truck in water, a very costly endeavor.

An OTA study entitled "Water-Related Technologies for Sustainable Agriculture in U.S. Arid/Semiarid Lands" pointed out that aquifers, once contaminated, cannot be cleaned up thoroughly using technological or economic means. This study states that the only form of successful groundwater pollution control in the foreseeable future will be through controlling the pollution at its source.

The Chesapeake Bay and Puget Sound both suffer from water pollution due to agricultural chemicals and soil erosion. Cleaning up such pollution is difficult and expensive. Direct costs for Chesapeake Bay cleanup already are $63 million, and Puget Sound is spending close to $4 million simply on planning and analysis of the problem. Such costs are born by the states, counties, and federal government and are creating enormous drains on currently tight budgets.

To control agricultural pollutants, farmers should be assisted in applying every method available to reduce or even eliminate their use of potentially harmful chemicals by using alternate means of supplying crop nutrients and controlling pests. Such practices will not only reduce water pollution problems and their costs to rural communities, but will also reduce input costs to farmers resulting from use of costly, energy-intensive chemicals.

Many farmers have already made this choice. For a variety of reasons—economic and health are the strongest ones—farmers have been starting to look for ways to reduce or eliminate chemical inputs. Diversification of crops, use of crop rotations to control weed and pest problems, and use of green manures and nitrogen-fixing legumes are among the techniques being used to replace chemical farming.

SOIL EROSION/ENERGY COSTS

The costs and problems of soil erosion and high energy use have contributed to shifts to alternative farming methods. Soil erosion is increasing (44% of all cropland is eroding over the 5 Tons/acre maximum sustainable erosion rate) and is necessitating costly road and channel cleanup by farmers and rural communities for an overall off-farm cost of $3 billion. Consequently, farmers have begun to investigate reduced tillage methods, which also reduce fuel use by 20 to 50 percent per acre, thereby lowering agricultural input costs while improving soil erosion. Such energy savings have stimulated interest in other energy savings—reduced use of petroleum-based farm chemicals, reduced energy use in irrigation pumping, use of solar energy for heating and grain drying, hydro and wind power, and production of energy crops. Such techniques are not widely used, but at least starting to filter down to the farm level.

Organic agriculture is one system of sustainable agriculture that is receiving attention for its potential role in input cost reduction benefits, enhancement of long-term productivity resulting from improved soil fertility, improved water quality and water conservation, and lower use of costly energy sources. Organic farming techniques reduce input costs an average of 20 percent and energy use by an average of 40 percent while maintaining or increasing net income and while eliminating synthetically compounded fertilizers and pesticides and decreasing soil erosion and sensitivity to draught. This is accomplished by replacing numerous external production inputs with an enhanced soil biological structure that controls nutrient cycling and weed and pest problems. Farmers who are reducing their use of only selected inputs are also saving money. For example, farmers who choose to continue using herbicides while eliminating other chemical inputs can cut their costs significantly.

Dick and Sharon Thompson operate a 300 acre hog and beef farm in Boone, Iowa. By farming organically, they have cut their production costs by $90 per acre. Their farm now operates on a pay-as-you-go basis, with no borrowed capital. The Thompsons were hosts of the Regenerative Agriculture Association's Field Day in 1984, which was attended by over 500 farmers from nine Corn Belt states.

Other technologies, including integrated energy systems, many forms of water conservation, energy conservation in all farm buildings, alternate methods of irrigation, energy crop production on marginal lands, increasing natural sources of nitrogen or nitrogen fixation, and improving efficiency and diversification of crops can provide additional ways to cut input costs and increase net income, while reducing the related costly problems of soil erosion, water pollution, and energy and water supply.

RURAL COMMUNITY RESOURCE MANAGEMENT

Rural communities face related resource management costs that can be reduced through similar technology systems. Energy costs in buildings, transportation costs contributing to high food costs, infrastructure costs, including road and school costs due to unnecessarily low-density developments, soil cleanup costs for highways, water pollution cleanup, waste management, and costs of farm loss could be addressed directly through improved rural community resource management and indirectly by working with farmers to reduce the source of the costs.

Counties spend as much as $100,000 annually to clean up soil-covered highways. Suffolk County, New York is spending $750,000 just to study the ways to clean up groundwater pollution in their area.

County governments, constantly trying to make development decisions, would be helped by a study produced by American Farmland Trust on the revenues and costs of four varying residential densities. This study found that the major costs associated with development (school operation: school transportation; road maintenance and construction; and water and sewer services) per 1000 residents in Londoun County, Virginia, was $3,462,700 for high density development and $4,959,000 for rural sprawl, the lowest density development. The study also found that any form of residential development cost the county more in costs than revenues, with rural sprawl having an average revenue short fall of $2,231,600 per 1000 households compared to the high density revenue short fall of $705,300.

Rural communities need to understand the costs they will undertake in any development decision, along with the additional demands that will be placed on available resources in order to manage more efficiently to keep budgets down.

Competing community demands for water is driving up its costs to those communities. Energy intensive street lighting can waste costly energy.

Improved resource management in communities can reduce such costs substantially. Better use of water, land, energy, and waste, while working with farmers to help reduce costly soil erosion and water pollution, and while planning improved farmers' marketing arrangements and local businesses based on such resource management could stimulate dollar flow while cutting costs.

RECOMMENDATIONS

The USDA through its research, technology transfer and extension capabilities, using talents of others versed in such technologies and their transfer, can expedite the development and use of such resource management systems by farmers and rural communities.

NCAT recommends that the following language be offered as an amendment to the 1985 Farm Bill to encourage research and technology transfer along the lines outlined in this testimony.

RESOURCE MANAGEMENT AND RURAL COST REDUCTION ACT

Amendment to 1981—(PL97-98)—Farm Bill

"Sec. 101 (a):

Amend Section 1402 of Act of 1977 by inserting new sub paragraph (B) in paragraph (10) and renumbering following paragraphs accordingly as follows:

"10(B): AGRICULTURAL POLICY.—the impacts of technological, economic, sociological, and environmental developments on our agricultural structure are strong and continuous. It is critical that existing and developing agriculturally-related technologies, economic changes, sociological and environmental developments both national and international be analyzed on a continuing and updated basis in an interdisciplinary fashion to determine the overall present and future agricultural structure impacts, and interrelated impacts between these four disciplines for purposes of agricultural policy decision making."

Sec. 101(b):

Amend Section 2(b) of August 4, 1965, by including a new sub-paragraph (7) after sub-paragraph (6) as follows:

"Agricultural Policy Research involving interdisciplinary research on the impacts of existing and developing agriculturally related changes on our agricultural structure.

Sec. 101(c) Amend 1409(A) of 1977 Act to include new sub-paragraph "(d)" as follows:

"(d) in order to promote research for purposes of developing agricultural policy alternatives, the Secretary shall establish at least one State cooperative institution as an interdisciplinary on-going endeavor to research and report on an annual basis the findings of such research on the impacts of existing developing agriculture related technological, environmental, sociological and economic changes on the overall agricultural structure. Such research should include grants to explore the impacts of varying food production, processing and distribution systems, including those of most benefit to small and owner-operated farms; i.e. direct and co-op marketing; diversified farm plans; energy, water and soil conservation technologies; production and processing cooperatives; and rural community resource management.

Sec. 102(a)

Amend Section 1404 of the Act of 1977 by striking paragraph "(8)(A)" and inserting in lieu thereof:

"(8)(A) Agriculture, including soil, water, and energy conservation technologies, sustainable agriculture technologies, rural and farm resources management;"

Sec. 102(b):

Amend Sec. 2(b) of the Act of August 4, 1965, by inserting a new sub-paragraph (8) of the following, (and inserting the word "and" after paragraph (7))

"(8) research on reducing farm input costs and rural costs through the development of a center for national and international data collection, and appropriate technology transfer of sustainable agriculture, soil, energy and water conservation technologies, rural and farms resource management, and diversification of farm products processing and marketing systems."

Sec. 102(c):

Amend Sec. 1409(A) of the Act of 1977 as follows: Insert the new sub-paragraph 1409(A)(d)

"(d) In order to meet the critical needs for reducing farmer input costs; improving soil, water and energy conservation on farms and rural areas, utilizing sustainable agriculture methods, alternative processing and marketing systems, and encouraging rural resources management the Secretary shall centralize such research at a minimum of two state agricultural experiment stations and one Agricultural Research Center while conducting on-going pilot projects contributing additional research through the federal-state partnership.

Currently the USDA Agricultural Research Service, the State Agriculture Experiment Stations, the Cooperative State Research Service, and the Extension Service perform research and educate farmers on the general technologies involved in these resources. We are suggesting that a stronger highlighting of such resource management technologies in the research priorities will contribute to more of such research, and that a centering of at least two State Agricultural Experiment Stations just on such research with their management of outside pilot projects where deemed necessary, with a similar focus at an Agricultural Research Center in addition, will facilitate the impact and noticability of such research, and thus help its transferability.

We further suggest that a Center for Appropriate Technology Transfer for Rural Areas (ATTRA) be set up. It would use a team of experts to collect and put together a data base of resource management technologies and referrals of local or regional specialists on the technologies gleaned from all evaluated international and national research institutions, and public and private data bases. Such a data base would include the resource management technologies (water, land, energy, soil, waste) existing on current USDA data bases, CRIS, ARS Tech Transfer, AGRICOLA, Forest Service, NARS; as well as DOI research, DOE research, EPA, other public and private universities and centers; and European and other international developments. These ATTRA Center specialists would also offer straight technical assistance, requested through a toll-free line, to extension agents, farmers, SAES, ARS, bankers, businesses, community governments and the rural public on any specific technical needs implementation, or commercialization difficulties experienced in deciding how or what to implement, or technical problems once installed.

We stress the inclusion of those technological sources outside the usual USDA technology transfer base, which predominantly focuses on the USDA ARS complex and SAES, because although good data bases are developed by these insitiutions, none stress resource management technologies, and the excellent work by DOI, such as on water efficiency technological developments; by private and international research centers on sustainable, organic, plant genetics, and diversification agriculture; by DOE and other private and public centers on renewable and energy conservation uses for farms and rural areas; by private and other public sources on land management and waste management; and by private centers and businesses on commercialization of such resource management technologies.

Europe has been particularly strong in the development of farming systems that address resource conservation.

Currently, the only data base USDA has, which is usable by universities and extension agents and that includes outside sources of technological development, is called AGRICOLA. This system scans 22,000 publications annually to update its literature review of all pertinent agricultural technologies. This data base is a literature data base, unconnected to specialists trained in the technology transfer of any particular technology one might locate on this data base.

All state extension agents, and any county agent with a computer, can access AGRICOLA. They can also access CRIS (Current Research Information Service) and NARS (Narrative Accomplishment Reports) data bases, which highlight versions of technological developments within the ARS and SAES complex. One of the difficulties in this set up is that even when technologies of interest to a farmer or rural community are located, the extension agent or SAES may be versed in that technology, but if not, can only refer the person to the researcher. These scientists and engineers may or may not have the time to assist the user in any particular construction or maintenance problems. If without time to help, there is no given source to assist in actual on-site difficulties.

The myriad of problems that can develop as technologies are being implemented are exhausting to consider, and thus a core staff of specialists in these resource management technologies are needed to provide straight technology transfer and site-specific assistance.

The USDA system is a good one, but for purposes of expediting technology transfer of resource management technologies, two additional thrusts are needed to truly facilitate use of such technologies:

(1) The data base to be accessed by extension agents and specialists on such technologies should only include all evaluated international and national sources of resource management technologies and referrals of local experts able to offer assistance in language that is useful to those accessing the data; and

(2) the center of appropriate technology transfer of resource management technologies specialists who evaluate and develop the on-going data base of resource management technologies should provide straight site-specific assistance by request of a toll-free line on the implementation of such technologies by farmers and rural communities, and the commercialization of such technologies and products resulting from their use by farmers and businesses. To the extent this requires overall farm management assistance or community management analysis, this too will be provided on request.

Such a system would provide extension agents, farmers, bankers, community governments, and businesses a source of data and technical assistance honed to their resource management problems.

Can such a system work? NCAT strongly believes so due to our technology transfer knowledge and our operation of a program somewhat similar to this called NATAS (National Appropriate Technology Assistance Service), which is funded by DOE on renewable energy and energy conservation technologies. We handle about 10,000 to 12,000 calls annually on site-specific renewable energy or energy conservation technology design, implementation or commercialization problems. Our trained staff has developed a data base of all such evaluated technologies and offers technical assistance on the practicality of any particular one.

We have a care turnaround time of 2 weeks; each technical assistance request takes an average of 8 hours; commercialization requests closer to 40 hours. All requests and answers are entered in the computer with monthly reports state-by-state.

Such a system can truly expedite assistance where a given area is pinpointed for its critical need and usefulness.

I feel that the rural resource management technologies, because of the contributions they can make towards farm input costs reduction, community cost reduction, and sustainability of our natural resources for future use, are a technological area that needs to be singled out and transferred as rapidly as possible, while researching continued improvements and new methods to be transferred in the future.

The cost of running such an Appropriate Technology Transfer for Rural Areas Center would be $3 million annually.

The cost of operating two experiment stations along research lines addressing only such resource management technological development is $4 million, and another $1 million is needed for focusing part of an ARS center.

Agricultural policy research to understand the impacts of policy decisions on agricultural structure and the impacts of varying technological developments on agricultural structure would require $2 million on an annual basis if various schools of thought are to be included in such analysis.

So the amendment we propose would cost a minimum of $10 million.

The USDA Farm Bill, recently sent to Congress, stresses many of these same priorities. Sections of their Title XIV refer to the need to address "input cost reduction" instead of just productivity, "organic agriculture" and "soil and water conservation." We support this language, but also feel that a stronger emphasis, along with the need for a technology transfer center is very much needed.

Thank you for your time. That concludes my remarks.

STATEMENT OF WILLIAM FLATT, DEAN OF THE COLLEGE OF AGRICULTURE, UNIVERSITY OF GEORGIA, AND CHAIRMAN, LEGISLATIVE COMMITTEE, DIVISION OF AGRICULTURE, NATIONAL ASSOCIATION OF STATE UNIVERSITIES & LAND-GRANT COLLEGES

Mr. Chairman and members of the committee my name is William P. Flatt, Dean and Coordinator of the College of Agriculture at the University of Georgia and Chairman of the NASULGC Title XIV Taskforce. It is a pleasure for me to appear before you today on the behalf of the Division of Agriculture of the National Association of State Universities and Land-Grant Colleges to discuss the research, extension and teaching provisions of the 1985 Farm bIll. Today I am joined by the following representatives of our Title XIV Taskforce: Dr. Rodney Foil, Experiment Stations; Dr. Donald Hegwood, Resident Instruction; Dr. John Woeste, Extension; Dr. Sidney Evans, 1890 Research; Dr. Gilbert Tampkins, 1890 Extension; Dr. Karen Craig, Home Economics; Dr. John Bowen, Veterinary Medicine; and Dr. J. L. Apple, International.

Mr. Chairman, the Taskforce has submitted our suggested amendments to the Committee in response to your request last year. I would note that we believe the basic authorities are sound. Our suggestions are, on the whole, perfecting in nature. However, before we look at the specifics of these proposals, I would like to briefly look at the broader agricultural situation.

Clearly, our nation's agriculture is facing difficult economic, social and physical questions. While farm prices and income are languishing, farm debt has risen to about $220 billion. At the same time, record high government program costs are threatening the credibility of our agricultural programs. We are facing several severe problems for which immediate relief is needed.

But even as we seek solutions to current problems we must not become so preoccupied with the present that we forget the future. Further, it is critical that we remember "agriculture" is an inclusive term for a remarkably complex and integrated system of food and fiber production, processing, and marketing. The keystone of the system is the farmer. However, farmer's remarkable production performance depends on an extensive supporting cast.

One of the most important factors is our uniquely rich natural resource base. Public investments in transportation, communication, education, and even regulation are vital blocks in the system. The production and availability of machinery, fertilizer, pesticides, and other inputs expand farmer productivity. The contributions of the marketing sector—processors and retailers—are critical to the system. Further, the service industries, like banking and insurance, lubricate the system. And the entire system rests on technology—the result of years of research and development.

Today, a significant share of our farm families face severe economic stress. Naturally, concern for these people is foremost in the thoughts of Congress. Every land-grant university in the country shares the concerns for financially stressed farm families. Extension is conducting special management programs to aid the farmers in meeting their financial crisis, and in nearly every state we are conducting special programs to help the farm families cope with the emotional trauma they are experiencing. Our researchers are working around the clock to find cost reducing systems to aid in the recovery.

However, I again raise a word of caution, don't forget our long term responsibilities as we seek solutions to today's problems. I do this because of the OTA report released before your committee entitled "Technology, Public Policy and the changing Structure of American Agriculture." This report in its entirety is thoughtful and constructive. However, a few provocative ideas from the report present a biased view of technology. The following quote from a news release is indicative of the problem. "The study, in essence, states that new agricultural technologies will lead to growing surpluses in many commodities in the years ahead and unpredictable supply and demand fluctuations. As well, OTA reports that new technologies are contributing to the demise of traditional moderate-sized farms, and the growth of large industrialized operations that can afford the new innovations."

The following quote by Senator Abdnor, Chairman of the Joint Economic Committee, however, puts the issue in context. "Some have suggested that we preserve the state of American agriculture by discouraging this kind of technological growth. We can no more turn back the clock on technological progress than we can effectively stop our international competitors from using new innovations against us in the marketplace if we don't keep pace."

There have been fundamental changes for agriculture and our nation in the past 15 to 20 years. The internationalization of agricultural markets as well as our national economy have injected volatility into the system. Related events such as the organization of OPEC and booming oil prices as well as the decision to permit the dollar to float added more volatility. The economic recovery of Japan and Europe at first stimulated demand for agriculture but it has also meant increased competition in industrial and consumer products as well as for agriculture. Agriculture in the U.S. has changed. Increased specialization, a higher proportion of purchased inputs, and increased dependency on advanced technology all increase the complexity and business risks for farmers above the natural risks that they know well.

There is a farm problem today and there is a broader food and agriculture problem. Producers are the essential keystone of the system and solutions to their acute problems must be found. However, we must now begin to work to develop the essential components of a sound and enduring food and agricultural system.

As I noted at the beginning of my remarks American agriculture and food production is based on advanced science and technology—science and technology which have been developed through public investments for education and research over the past 120 years at the land-grant colleges and the Department of Agriculture. No other nation had the foresight to make these investments which is a major reason why our agriculture is the envy of the world. The Senate Committee on Agriculture, Forestry and Nutrition along with the House Committee on Agriculture have supported and advanced this great heritage through passage of Title XIV the National Agricultural Research, Extension, and Teaching Policy Act of 1977 and subsequent perfecting amendments.

Today, our agricultural problem is one of "surplus" with its resulting consequences of declining prices, low incomes, and farm failures. The Secretary of Agriculture has lamented the dilemma of excess production capacity. We are again hearing questions about the appropriations for agriculture research and extension when we have surpluses, and large national budget deficits.

Similar questions were asked during the 1960's when our nation faced persistent commodity surpluses. However, the sudden entry into the world grain market by the Soviet Union and China demonstrated how illusory the concept of surplus was. Our past investments permitted an "over night" increase in agricultural exports from $6 billion to over $40 billion. In addition, the corn blight of 1970, the world food crisis of 1974, and the 1983 short corn crop, and the repeated freezes in our citrus areas are all stark reminders of the uncertainties of agriculture.

Clearly, agriculture is a dynamic biological system. Weather is never predictable and international markets are volatile. Diseases and insects are constantly evolving. Population growth is putting increased pressure on our resources. In fact, our surpluses represent only a few months supply at best in the face of a crop failure. It is essential that continued advancement in agriculture technology be achieved through research, education, and the extension programs to meet current problems and future challenges.

To meet these challenges we must develop and maintain a strategic research capacity. The long lag time between basic scientific research and application does not permit for quick start-up or closedown. The very uncertainty of future challenges requires that we develop a system with adequate capacity and flexibility to respond to new diseases, pests, or climatic changes. In addition, I would like to stress our research, extension, and teaching efforts are not exclusively to increase production. Our efforts are directed at providing the knowledge base to achieve each of the other essential elements of a long term, sustainable food and agricultural policy.

Improved production efficiency research and enhanced management through extension programs will give farmers the ability to produce at lower costs, thus improving their financial position without increasing costs to the consumers. Our soil, water, forestry, and range research and extension programs are helping conserve our soil and water resources and improving the productivity of our forests and rangelands, especially the private forests and rangelands.

The core of our national nutritional research effort is in USDA and the land-grant system. The Extension service and our Home Economics schools have for over a half century worked to extend good nutritional knowledge. Even though resources for this effort have deteriorated due to inflation, we are still reaching a significant portion of the truly needy with nutrition information. However, we believe it is time to achieve a truly National Nutrition education program.

Our policy research is focused on improving the understanding of the relationships between agriculture and the rest of the economy. The results of this work will enhance the positive contributions and help reduce the unnecessary negative consequences of national policies. This is true for domestic as well as international economic policies.

The quality of life in Rural America is a special concern of our institutions. We are working in every county and with as many communities as our resources will permit to help rural communities improve their quality of life.

Mr. Chairman and members of the committee, I appreciate the opportunity to testify before you. I wish to say my remarks have drawn heavily upon the wisdom of many individuals. I have no set solutions for our current problems, however, we should remember that the basic structure of our agricultural system is sound. Much of the credit for the strength of the system belongs to Congress which has shown great foresight over the years. We need to address the infirmities, but always with an eye to the future.

It is in this light that we offer our thoughts for amendments to Title XIV. We believe that balance among research, extension, and teaching that Congress has provided in Title XIV is critical and must be maintained. We also believe that the importance of related programs in Home Economics, Animal Health, and Forestry should be given better support than is evident over the past few years. In this regard, I want to commend you for including the extension of section 1433: Animal Health research in S616.

The importance of international markets as well as the recurring crises of famine in many areas of the world demand a clearer effort in international agriculture.

Our two major new initiatives are to begin a national nutrition education program and to provide facilities for 1890 extension. These are areas of need which are long overdue.

Before I close I want to touch briefly on three items in S.616—targeting extension 3(d) programs and research on small and moderate sized farms, elimination of the special grants program, and elimination of EFNEP.

First, we fully share your concern for the small and moderate sized farm operations and support the objectives of your provisions. However, we caution against inclusion of these requirements in the law. Most of our agricultural extension programing is already focused on these target populations, however, extension 3(d) programs are unique and 85 percent of 3(d) is for programs that are not producer oriented—EFNEP and Urban Gardening. Dr. Woeste is prepared to more fully discuss this issue. These points make the proposed requirement moot yet the language could become the basis of legal harassment suits against our institutions similar to the California case brought by the California Rural Legal Assistance Foundation.

The special grants category contains important and appropriate research efforts. Fully two thirds of the funds go the "national projects" while one third are used for targeted problems usually in one state. We recognize that abuses could occur with regard to funding allocation but we believe this authority is a legitimate and important provision. I have an analysis of the current special grants programs that I would like to make part of the record, and I would note that Dr. Rodney Foil is prepared to ~~more~~ fully discuss this issue and the targeting of research on small and moderate sized farms.

Mr. Chairman, we strongly support the need for nutrition education. EFNEP has been shown to be effective by repeated evaluations and studies. Our greatest concern is that this program is reaching only a small share of the target population and we are not providing comprehensive nutrition education to the broader population. This is the reason for our nutrition education initiative. Dr. Karen Craig is prepared to discuss any specific questions in this area.

Mr. Chairman, the various panel members are the experts who can respond to any question the committee may have. In addition, several of the members of our panel have supporting statements for the specific proposals in their areas which they would like to submit for the record.

[The following material was supplied by William Flatt, Dean, College of Agriculture, University of Georgia:]

PROPOSED AMENDMENTS FOR THE AGRICULTURAL RESEARCH, EXTENSION, AND TEACHING TITLE OF THE 1985 FARM BILL—REPORT OF THE NASULGC DIVISION OF AGRICULTURE TITLE XIV, LEGISLATIVE TASK—FEBRUARY 1985

FOREWORD

The Division of Agriculture of the National Association of State Universities and Land-Grant Colleges because of the legislative mandates of its member institutions worked closely with the Agriculture Committees of the Congress on agricultural research, extension and teaching provisions of the 1977 and 1981 Farm Bills—Title XIV. In November of 1983, The House Committee on Agriculture asked the Division to review these provisions as well as other parts of current legislation in preparation for the 1985 Farm Bill reauthorization. The Senate Committee on Agriculture, Nutrition, and Forestry made a similar request in early 1984.

In response to the congressional requests, the Division of Agriculture established a Title XIV Legislative Taskforce. The Taskforce was chaired by Dr. Dale Zinn, Dean of the College of Agriculture at the University of West Virginia until June 30, 1984, and since that time by Dr. William Flatt, Dean of the College of Agriculture at the University of Georgia. The Taskforce functioned as a representative group of the various sections and units of the Division. The full membership of the Taskforce is listed at the end of the report.

The attached issues and proposed amendments are the result of work by the Taskforce and legislative committees in the various units over nearly a year. The Taskforce is pleased to report that the existing legislation for agricultural research, extension, and teaching is basically sound. The changes recommended by the Division are generally quite minor and perfecting in nature. The two major exceptions are a new initiative to develop a national nutrition education program to complement the food stamp program and a program to provide needed facilities and equipment for the 1890 extension programs.

This report was considered by the various units of the Division of Agriculture at the NASULGC annual meetings in Denver, Colorado during November of 1984. The units unanimously endorsed the proposals. The proposals were then considered by the Executive Committee of NASULGC at the same meetings and were endorsed by the Executive Committee.

NASULGC recommends to the Congress adoption of the attached amendments and new authorities for Agricultural research, extension, and teaching to help our institutions meet their legislative mandates and most importantly to meet our nation's food and agricultural challenges in the future.

SCIENTIFIC EXPERTISE FINDING

Issue

Section 1402 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended, has an extensive list of findings, purposes, and definitions. However, the section does not make special reference to teaching issues, especially the impending shortages of trained scientists in the food and agricultural sciences. To codify programs and funding provided for in Section 1417, a statement relative to human expertise needs should be added to Section 1402.

Discussion

America's food and agricultural system is seriously threatened by current and projected shortages of qualified scientists, managers and technical professionals. Insufficient numbers of capable students are entering advanced degree programs in basic agricultural science disciplines and technical specialities to meet the Nation's needs for food and agricultural scientists. These shortages impact upon all regions of the United States. Currently targeted national need areas are agricultural marketing, agricultural engineering, biotechnology, and food science, and human nutrition.

Proposed amendment

Section 1402 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3101) is amended by adding a new clause at the end as follows:

"(12) The Nation's agricultural system is increasingly dependent on science and technology to maintain and improve productivity levels, manage the resource base, provide high quality products, and protect the environment. A constant supply of food and agricultural scientific expertise is imperative to maintain this dynamic system."

FELLOWSHIP GRANT STANDARDS

Issue

Section 1417(a)(3) provides for a competitive grants program under which the postgraduate fellowship program has been administered. To insure that the fellowship program addresses the national need areas in food and agricultural science expertise, it is important that recipient institutions have a significant commitment to the food and agricultural sciences.

Discussion

National studies by the Office of Higher Education, USDA, have identified a 13 percent annual shortfall of trained scientists in the food and agricultural areas, especially at the doctorate level for available food and agricultural positions. The greater national need areas are agricultural engineering, international marketing, food science/human nutrition and biotechnology. To help meet these shortages, a national postgraduate fellowship program has been initiated. These fellowships need to be awarded on a competitive basis to institutions which have programs, facilities and commitment to the food and agricultural science to meet the specified national need areas.

Proposed amendment

Section 1417(a)(2) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3152) is amended by striking out the last sentence.

Section 1417(a)(3) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3152) is amended by striking out the last sentence.

Section 1417(a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3152) is amended by adding a new sentence to the end thereof as follows: "Provided, institutions shall have a significant commitment to the food and agricultural sciences generally and to the specific subject area for which such a grant is to be used to be eligible for grants under this section."

TRANSFER OF 3(d) PROGRAMS AND FUNDS TO 3(b)

Issue

The Smith-Lever Act does not provide for discretionary transfer of 3(d) programs to the formula base under 3(b) which would maintain the allocation integrity of 3(d) efforts. While 3(d) funds could be "transferred" to 3(c), they would then have to be allocated under the 3(c) formula without regard to original program or allocation. As a result, 3(d) programs are always viewed as "special" and not as base programs.

Discussion

The authority to transfer funds with program integrity to the Smith-Lever base would seem to be desirable in some cases. It could maintain the program, incorporate the program into the extension base, and reduce the "step child" nature of 3(d) programs after they are initiated. The authority is discretionary and programs whose identity afford special value would not be affected.

Proposed amendment

Section 3(b) of the Smith-Lever Act (7 USC 343) is amended by adding a new subsection (3) as follows:

"(3) Programs and funding appropriated under subsection 3(d) of this Act may from time to time as Congress determines to be desirable be transferred intact to subsection 3(b)(1) and be incorporated into the respective states base. Such transferred funds will retain the requirements for accountability, matching, and distribution among the states that prevailed when appropriated under 3(d)."

1890 EXTENSION FACILITIES PROGRAMS

Discussion

Since 1914, the 1890 Land-Grant Institutions and Tuskegee Institute have participated in the delivery of cooperative extension programs to farmers and other eligible clientele in sixteen states.

Beginning in 1972, Congress sharply expanded the 1890 Extension effort under 3(d) of the Smith-Lever Act. The program was enhanced and expanded by Section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 and subsequent amendments in 1981. While these efforts have improved the program funding situation, the facilities situation is critical. This is especially true in the case of providing facilities for the campus-based staff. Now, after 70 years of operation under these conditions, the facility needs are urgent. These needs vary on the several campuses; however, some of the more common problems are:

1. Limited space in old buildings needing major renovation;
2. The current program funding requires staff expansion beyond facility capacity;
3. New facilities are needed to expand state programs for such activities as conferences, fairs, and livestock shows; and
4. New facilities are needed to capitalize on new and emerging technologies.

Proposed new section

Sec. . (a) It is hereby declared to be the intent of Congress to assist the institutions eligible to receive funds under Section 1444 of the Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3221), (hereinafter referred to in this section as "eligible institutions"), in the acquisition and improvement of extension facilities and equipment so that eligible institutions may participate fully with the State Cooperative Extension Services in a balanced way on the extension needs of the people of their respective states.

(b) There are authorized to be appropriated to the Secretary of Agriculture for the purpose of carrying out the provisions of this section $10,000,000 for each of the fiscal years beginning with the fiscal year ending September 30, 1987, through the fiscal year ending September 30, 1991. Such sums shall remain available until expended.

(c) Four per centum of the sums appropriated pursuant to this section shall be available to the Secretary for administration of the program. The remaining funds shall be made available for grants to the eligible institutions for the purpose of assisting them in the purchase of equipment and land and the planning, construction, alteration, or renovation of buildings to provide adequate facilities to conduct extension work in their prospective states.

(d) Grants awarded pursuant to this section shall be made in such amounts and under such terms and conditions as the Secretary shall determine necessary for carrying out the purposes of this section.

(e) Federal funds provided under this section may not be utilized for the payment of any overhead cost of eligible institutions.

(f) The Secretary may promulgate such rules and regulations as the Secretary may deem necessary to carry out the provisions of this section.

A NATIONAL NUTRITION EDUCATION PROGRAM

Issue

The lack of understanding of nutrition and diet related problems is a national problem that is acute for individuals and families with limited resources.

Discussion

Good nutrition which results from a balanced diet that includes all the necessary micro and macro nutrients without excess is critical for good physical and pyschological health. Further, good nutrition is clearly associated with reduced health care costs. Inappropriate nutrition in contrast, reduces general well-being and increases health care costs. Inappropriate nutrition can result from inadequate nutrients, excessive nutrients, and imbalance among the nutrients consumed. All three conditions are found in all socio-enconomic groups. However, when individuals and families have limited financial resources the likelihood of nutritional imbalances or inadequate consumption of one or more vital nutrients is increased.

A comprehensive and complementary nutrition education program is imperative for the Food Stamp Program to achieve its objectives. However, the nutrition information needed by food stamp recipients is not unique. Therefore, the proposed nutrition program has the additional advantage of building a national nutrition information and education system that will be applicable and available to all people.

Proposed amendment

Section 11(f) of the Food Stamp Act of 1977 is amended by striking out the entire section and inserting in lieu thereof the following:

"(f) A national nutrition education program is hereby established to increase the nutritional knowledge and awareness of food stamp recipients, to encourage the purchase of nutritious foods, to expand awareness of the variety and quality of foods as well as the relative food values due to seasonality and other factors. A national nutrition education program is a critical component of the continuing information effort required in subsection (c)(15) of this section that is needed to enhance the effectiveness and efficiency of the Food Stamp Program and to maximize the nutritional well-being of food stamp recipients and other people."

The Secretary of Agriculture shall administer the nutrition education program through the State Cooperative Extension Services utilizing research knowledge and information developed by the various food and nutrition research and education agencies of the Department of Agriculture and the relevant expertise of the state land-grant colleges and universities. The program shall be carried out by those institutions eligible under the Act of May 8, 1914 (7 USC 341-344). The Secretary shall distribute to the cooperative extension services of the states, as a part of the state's food stamp administrative costs, an amount equal to one percent of the previous year's total food stamp payments to the state to carry out this program.

(1) Four per centum of the funds shall be retained by the Department of Agriculture for administration, program assistance to eligible states, and program coordination.

(2) The Secretary may promulgate rules and regulations as he may deem necessary to carry out the provisions of this section.

GENERAL AUTHORITY TO USE COOPERATIVE AGREEMENTS

Issue

The Office of Finance Management and the Office of General Counsel in USDA have raised questions about the appropriateness of some cooperative agreements given limits under the Federal Grants and Cooperative Agreement Act. USDA believes there is a need to clarify the situation.

Proposed amendment

Section 1472 of The National Research, Extension, and Teaching Policy Act of 1977, as amended (7 USC 3318), is amended by:

(1) Redesignation subsections (b), (c), and (d) as (c), (d), and (e) respectively; and

(2) Inserting a new subsection (b) to read as follows:

"(b) Notwithstanding the provisions of chapter 63 of Title 31, United States Code, the Secretary is authorized to use a cooperative agreement as the legal instrument reflecting a relationship between the Department of Agriculture and a State cooperative institution, as defined in section 1404 (16) of the Act, when the Secretary or his designee determines that the objectives of the agreement will serve the mutual interest of the parties to the agreement; and that the unique Federal-State partnership existing in food and agricultural research, extension, and teaching will be enhanced thereby. Notwithstanding any other provision of law, any Federal agency may participate in such cooperative agreements by contributing funds through the appropriate agency of the Department of Agriculture or otherwise when it is mutually agreed that the purpose of any such agreements will further the authorized programs of the contributing agency."

EXEMPT PEER REVIEW PANELS FROM THE ADVISORY COMMITTEE ACT

Issue

Clearance of scientific peer review committee members for competitive grant review panels has been periodically delayed, complicated, and subjected to unnecessary costs by the clearance provisions of the Federal Advisory Committee Act.

Discussion

The Federal Advisory Committee Act (5 USC App.) was established to deal with numerous perceived problems of advisory committee responsibilities, appointments, terms, costs, and related issues. However, the problems the Act addresses are not relevant to scientific peer review panels. Timely appointment of the peer review panels is imperative to realize effective and efficient operation of the competitive grant programs. The panels must be convened annually and must be composed of individuals with recognized scientific credentials. Further, the roles of the panels are specified as are the terms of the members.

Proposed amendment

Section 2 of the Act of August 4, 1965, (7 USC 450i) is amended by adding a new subsection to the end thereof:

"(i) The Federal Advisory Committee Act (5 USC App.) and Title XVIII of the Food and Agriculture Act of 1977 shall not apply to the scientific peer review panels involved in evaluating grant proposals under section (b) of this act or of similar competitive research grant programs administered by the Secretary of Agriculture under other authorities."

1890 RESEARCH CARRYOVER PROVISION

Issue

The requirement of full expenditure of funds within a given fiscal year limits flexibility, loss of funds, and necessitates "mismanagement" from a program perspective. It is virtually impossible to arrive at a zero balance at the end of a given fiscal year and then smoothly move into the next year's operation the next day.

Discussion

For the 1890's as a group, there are few funds for research coming from the states or other sources. Therefore, under present law the 1890 research program has to arrive at a zero balance of the closing fiscal year as they move into the next fiscal year. To have at least a 5% carry over provision would facilitate the following:

(1) Improve fiscal management. The carry over provision would reduce the necessity to make excessive adjustments and in-house budget revisions in order to accomplish a zero balance. It is adminstratively impossible to shut down the operation 2 to 3 months before year end to allow all financial documents to be processed.

(2) More management flexibility. Since there are no other appreciable funds to conduct research at the 1890's, there is no flexibility to deal with emergencies and last minute necessary expenditures that certainly will occur. Despite best efforts to estimate these expenditures, traditionally they do not result in zero balances by line items nor projects.

(3) Provide safety and eliminate the return of funds. A carry over would provide a margin of safety against over or under expenditure in the aggregate for the entire 1890 research program and the USDA cooperative partnership program with the States and Territories. It would guard against the frequent necessity of having to return funds to the Treasury or have funds withheld from the ensuing year's appropriation.

Proposed amendment

Section 1445(a) of The National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3222) is amended by adding to the end the following new sentence:

"No more than five per centum of the funds received by an institution in any fiscal year may be carried forward to the succeeding fiscal year."

ELIGIBILITY OF SOCIAL SCIENCES FOR COMPETITIVE GRANTS

Issue

Social Science research is not included in the list of high priority research areas for the competitive research grants program. However, many of the most significant research issues are in the social science areas, including changing institutional relationships, changing roles for individual modified family structure and fuction, and increasing levels of stress due to these changes and other pressures.

Discussion

There have been major social, economic, and technological changes that have affected the roles, responsibilities, and expectations of individuals, families, and the related support institutions. The prime social unit in American society, the family, has felt the effect of many shifts in values and goals as well as the changing economic climate. Among these changes, diverse family configurations are emerging including families headed by teenage parents, single-parent families, two income families, and families consisting of elderly retirees.

The increasing complexity of technology will make these issues more important over time. The ability to cope with change, to adapt new technology and to mange the stress associated with complex, rapidly changing systems is critical for long term viability of agriculture and the broader economy.

Much more information is needed to address the critical societal issues that families face. Thus, there is a need for major funding for basic and applied research addressing these critical societal issues as they relate to individuals, families, and communities. Findings from this research can then be disseminated through Extension programming and mass media.

Proposed amendment

Section 2(b) of the Act of August 4, 1965, (7 USC 450i) is amended by:

(1) striking "and" at the end of (5),

(2) striking "." after "others" in (6), and inserting in lieu thereof "; and", and

(3) adding a new item (7) as follows:

"(7) Basic and applied research to enhance understanding of individual, family and community relationships; of individual and family resource management; and social, political, legal, and economic factors that affect food and agricultural policy."

RECOGNITION OF INTERNATIONAL AGRICULTURE WITHIN THE DEFINITION OF THE FOOD AND AGRICULTURAL SCIENCES

Issue

Section 1404 (8) defines the "food and agricultural sciences" broadly and cites a list of activities to which they relate but does not include among them "international agriculture."

Discussion

It is important that the legislation recognize "international agriculture" as a component of the "food and agriculture sciences" and thus give additional validity to work in this area under the federal/state partnership. We should no longer think in terms of only domestic agriculture because many of the decisions and events that affect the U.S. agricultural economy are made beyond our borders. Consequently, our purview of agricultural problems and our program activities must be extended to international issues if we are to understand and cope successfully with the problems and issues which at times dictate the U.S. agricultural economy.

Proposed amendment

Section 1404 (8) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3103) is amended by:

(1) striking out "and" at the end of (H),

(2) adding "and" to the end of (I), and

(3) adding a new clause as follows:

"(J) International food and agricultural issues such as agricultural development, institution development, germ plasm collection and preservation, information exchange and storage, and scientific exchanges."

FEDERAL-STATE PARTNERSHIP IN INTERNATIONAL AGRICULTURE

Issue

Section 1409A (a) describes the unique partnership arrangement that exists in food and agricultural research, extension, and teaching between the Federal Government and the governments of the several states whereby the states have accepted and have supported, through legislation and appropriations, research, extension, and teaching programs. This section does not recognize that this partnership arrangement also extends to international agriculture.

Discussion

The eligible universities and colleges under the Title XII Amendment of the Foreign Assistance Act represents a partnership between the Federal and State Governments in the area of international agricultural development. This partnership should be reflected in the Farm Bill and should be reflected in the action program linkages between the United States Department of Agriculture and the universities and colleges of the various states. This is a logical and essential extension of the partnership referred to in Section 1409A.

Proposed amendment

Section 1409A (a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3124) is amended by:

(1) striking the "." at the end of (3) and inserting in lieu thereof ";", and

(2) adding a new clause as follows:

"(4) international agricultural programs under Title XII of the Foreign Assistance Act of 1961 as amended (22 U.S.C 2220a)."

TO STRENGTHEN UNIVERSITIES CAPACITY FOR INTERNATIONAL AGRICULTURAL DEVELOPMENT

Issue

Section 1458 authorizes the Secretary of Agriculture to "assist United States colleges and universities in strengthening their capabilities for food, agricultural, and related research and extension relevant to agricultural development activities in other countries."

This language is vague as to the manner in which the Secretary is authorized to assist the United States colleges and universities with this strengthening process.

Discussion

The linkages between the international agricultural program activities of colleges and universities and those of the Department of Agriculture should be strong and dynamic as is the case with those dedicated to domestic agriculture. However, linkages in the inernational program area are not strong. Comparatively few college and university scientists have been involved in international activities through programs sponsored by the U.S. Department of Agriculture. Dedicated, qualified scientists are the foundation of good international development work. Assistance by the Department of Agriculture in developing a stong cadre of university scientists who are involved in international development work would be an invaluable contribution.

Proposed amendment

Amend Section 1458 (a) (4) of the National Agricultural Research Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3291) by inserting immediately after "countries" the following phrase, "through the development of highly qualified scientists with specialization in international development."

CLARIFICATION OF COOPERATIVE AGREEMENTS FOR INTERNATIONAL PROJECTS

Issue

The Department of Agriculture is determining that section 1473 of P.L. 97-98 prohibits the payment of indirect costs under any Cooperative Agreements between the USDA and State cooperative institutions. This seems to exceed the intent of the legislation and creates a significant problem for state institutions which are cooperating with USDA in international projects.

Discussion

A major share of federal state agricultural research, extension, and teaching efforts are conducted historically on a cooperative or joint venture basis. In some cases, such as under the Hatch and Smith-Lever Acts, the "cooperation" is specified by law and the question of indirect costs is moot. However, there are also cooperative agreements of mutual interest to USDA and the states which do not have specific cooperation standards. The "mutual interest" test in section 1473 is critical in differentiating cooperative agreements from contracts or grants. For example, USDA and the state of Wisconsin can and do have a mutual interest in dairy forage research since dairy is important to each. Therefore, a dairy forage cooperative agreement between USDA and Wisconsin is reasonable. However, a citrus research cooperative agreement between USDA and Wisconsin is not a likely cooperative agreement situation.

Section 1473 was stimulated by concerns that some states were not living up to the mutual interest concept and were extracting excessive "indirect costs" from cooperative agreements. The opposite extreme is not the case. USDA is labeling many projects that are of a contract or grant nature, including some pass through projects from other departments, as cooperative agreements. In these cases, USDA is withholding payment of legitimate indirect costs that must be borne by the states. In addition, there have been cases of seemingly excessive administrative charges by USDA agencies on the very projects which they prohibit the states from levying administrative charges.

Proposed amendment

Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 as amended (7 USC 3319) is amended by adding the following new sentence:

"Provided, the restrictions on indirect costs and tuition remission will not apply to funds for international agriculture programs conducted by a State cooperative institution and administered by the Department of Agriculture under its authorities or for other Federal agencies through fund thansfers, advances or reimbursements. The Secretary shall limit such allowable costs to those necessary to carry out the provisions of the program or agreement."

EXTENSION AND CLARIFICATION OF AUTHORIZATIONS FOR APPROPRIATIONS

Issue

Several agricultural science programs included in Title XIV need to be reauthorized for the period beyond FY 85. There are also multiple authorizations for some programs, and in one case—1890 Extension—the 1981 amendments inadvertently limited the authorization period from the original legislation.

Discussion

The P.L. 95-113 and P.L. 97-98 included additional authorizations for some programs such as Hatch and Smith-Lever beyond the authorizations in the original legislation. One purpose was to provide "appropriation targets" to achieve better funding levels. However, eight years experience suggests this target concept is not very effective and the inclusion of relatively arbitrary levels in the authorization bill has resulted, at times, in unnecessary debate and strife over issues ultimately decided in the appropriations process. The objectives of this group of amendments is to provide continuity of authorization, minimize unnecessary conflict, and adjust the authorization where it is restricting. A brief explanation of each proposed amendment follows:

1890 Extension—P.L. 97-98 provided for an incremental increase of the formula base from 4 per centum to 6 per centum. The wording to achieve this inadvertently stopped authorization beyond FY 85. The second amendment is needed to clarify the formula base.

Proposed amendment

Section 1444(a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 as amended (7 USC 3221) is amended by:

(1) deleting the phrase: ", through the fiscal year ending September 30, 1985."

(2) adding at the end of the third sentence: "and related acts pertaining to Cooperative Extension work at the Land-Grant institutions identified in the Act of May 8, 1914."

Smith-Lever—P.L. 97-98 provides additional authorizations for Smith-Lever that were to serve as appropriations targets. This effort has not been successful and the authorization in the original law is adequate. The proposed amendments would eliminate the redundant authorization.

Proposed amendment

(a) Section 1464 of The National Agricultural Research, Extension, and Teaching Policy Act of 1977 as amended (7 USC 3321) is repealed.

(b) The Table of Contents of the Food and Agricultural Act of 1977 is amended by striking out "Sec. 1464. Authorization for appropriations for extension education" and inserting in lieu thereof "Sec. 1464. Repealed."

Hatch—Same situation as noted for Smith-Lever above.

Proposed amendment

(a) Section 1463 of The National Agricultural Research, Extension, and Teaching Policy Act of 1977 as amended (7 USC 3311) is repealed.

(b) The Table of Contents of the Food and Agricultural Act of 1977 is amended by striking out "Sec. 1463. Authorization for appropriations for existing and certain new agricultural research programs." and inserting in lieu thereof "Sec. 1463. Repealed."

1890 Research Facilities—The 1890 facilities grants program was passed by Congress in December, 1981 which authorized funding for five fiscal years starting with FY 1982. However, the FY 82 Appropriations bill had been completed prior to passage of P.L. 97-98. The first appropriation was made in FY 1983. Therefore, in order to receive the entire five year appropriation, an additional year of authorization—FY 1987—is needed.

Proposed amendment

(a) Section 1433 (b) of the Agriculture and Food Act of 1981 (7 USC 3223) is amended by deleting "and" immediately before "September 30, 1986," and inserting immdiately thereafter the following phrase: "and September 30, 1987,"

Animal Health Research—Authorizations for both sections 1433 and 1434 are limited beyond FY 85 by the authorization language. The proposed amendments extend authorization to subsequent years.

Proposed amendment

Section 1443 (a) of The National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3195) is amended by striking out of the first sentence

"1981, and ending September 30, 1985, and not in excess of such sums as may after the date of enactment of this title be authorized by law for any subsequent fiscal year." and inserting in lieu thereof, "1985, and ending September 30, 1990."

Section 1434 (a) of The National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3196) is amended by striking out of the first sentence "1981, and ending September 30, 1985, and not in excess of such sums as may after the date of enactment of this title be authorized by law for any subsequent fiscal year" and inserting in lieu thereof, "1985, and ending September 30, 1990."

Competitive Grants—Authorizations for the competitive grants expires with FY 85 and the current authorization level must be adjusted to meet future needs.

Proposed amendment

Section 2(b) of the Act of August 4, 1965 (7 USC 450:(b)), is amended by striking out the last sentence and inserting in lieu thereof "There are hereby authorized to be appropriated for the purpose of carrying out the provisions of this subsection, $100,000,000 for the fiscal year ending September 30, 1986; $125,000,000 for the fiscal year ending September 30, 1987; $150,000,000 for the fiscal year ending September 30, 1988; $175,000,000 for the fiscal year ending September 30, 1989; $200,000,000 for the fiscal year ending September 30, 1990, and such sums as the Congress may deem necessary in any subsequent fiscal year."

Higher Education Programs—Authorization of higher education programs expires with FY 85 and must be extended.

Proposed amendment

Section 1417(d) of The National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3152) is amended by striking everything after "section" and inserting in lieu thereof "$50,000,000 for each fiscal year through the fiscal year ending September 30, 1990 and such sums as the Congress may deem necessary in any subsequent year."

Renewable Resources Extension Act—Authorization for appropriations for RREA extends through FY 88. However, to provide for continuity, provision for authorization in subsequent years is desirable.

Proposed amendment

Section 6 of the Renewable Resources Extension Act of 1978 (7 USC 1675) is amended by inserting at the end of the first sentence ", and in each subsequent year such sums as the Congress may deem necessary."

LEGISLATIVE TASK FORCE TITLE XIV

Dr. William Flatt, Chairman, College of Agriculture, University of Georgia, Athens, Georgia 30602.

Dr. David Ford, Asst. Dean, & Dir. Res. Inst., College of Agriculture, Virginia Polytechnic Inst., Blacksburg, VA 24061.

Dr. Rodney Foil, Agricultural & Forestry Experiment Station, Mississippi State Univ., Mississippi State, MS 39762.

Dr. Robert L. Crom, Dean, Univ. Ext. Serv. of Coop. Ext. Serv., Iowa State University, Ames, IA 50011.

Dr. Gilbert Tampkins, Langston University, Langston, OK 73050.

Dr. J.L. Apple, Assoc. Director, Intern'l Ag., North Carolina State Univ., Raleigh, NC 27650.

Dr. Richard Dierks, Dean, College of Vet. Med., University of Illinois, Urbana, IL 61801.

Dr. Larry Tombaugh, Chairman, Dept. of Forest Economics, Michigan State University, East Lansing, MI 48824.

Dr. George Sledge, Assoc. Dean, College of Agriculture, University of Wisconsin, Madison, WI 53706.

Dr. Ben Jones, Director, Agric. Experiment Station, University of Illinois, Urbana, IL 61801.

Dr. John Woeste, Dean of Extension, University of Florida, Gainesville, FL 32611.

Dr. Sidney Evans, Research Director, North Carolina Agric. & Tech. State Univ., Greensboro, NC 27411.

Dr. Beverly Crabtree, Dean, Col. of Home Econ., Oklahoma State University, Stillwater, OK 74078.

Dr. R.A. Wright, Dean, College of Agric., Ohio State University, Columbus, OH 43210.

Dr. Dale W. Zinn, Dean, College of Agriculture, West Virginia University, P.O. Box 6108, Morgantown, WV 26506-6108.

STATEMENT OF GILBERT TAMPKINS, ASSOCIATE ADMINISTRATOR, COOPERATIVE EXTENSION PROGRAM, LANGSTON UNIVERSITY, LANGSTON, OK

Mr. Chairman, my name is Gilbert Tampkins. I am the Associate Administrator of the Cooperative Extension Program at Langston University, Langston, Oklahoma. I am honored to have the opportunity to testify on behalf of the Cooperative Extension Program at the historically Black Land-Grant Institutions. Our major focus is on the development and revision of existing legislative authorization for consideration in drafting the 1985 Omnibus Farm Bill.

At this point Mr. Chairman, it would be appropriate to elaborate on the age, magnitude, accomplishments and the national significance of the historically Black Land-Grant Institutions, but time will not permit a full disclosure here. However, while these institutions have made great strides over the past 70 years in the areas of science, education and teaching, the Extension Program since its inception has performed admirably in channeling research developments to American taxpayers in their roles as producer, consumer, wage earner and member of society in general.

Mr. Chairman, we stress that for the 1890 Extension Program to have the desired impacts and address the issues of today and those facing us in the future, it is necssary to look ahead to changing needs. We approached the subject by surveying and analyzing needs and opportunities to strengthen the 1890 Extension operation base. We discerned that the following needs should be called to your attention as recommendations to the 1985 Omnibus Farm Bill in order to fulfill long-term and strategic planning for 1890 Extension. The needs are: (1) Continuous authorization of 1890 Extension. (2) Achieving authorization for 1890 Extension facilities.

We concur with recommendations by the National Association for State Universities and Land-Grant Colleges (NASULGC) for the 1890 Extension Program as follows:

Public Law 97-98 provided for an incremental increase of the formula base from 4 per centum to 6 per centum. The wording to achieve this inadvertently stopped authorization beyond FY85. The second amendment is needed to clarify the formula base.

Proposed amendment

Section 1444(a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 as amended (7 USC 3221) is amended by:

(1) deleting the phrase: ", through the fiscal year ending September 30, 1985."

(2) adding at the end of the third sentence: "and related acts pertaining to Cooperative Extension work at the Land-Grant Institutions identified in the Act of May 8, 1914."

Extension facilities at 1890 institutions are badly needed. Since 1914, 1890 Land-Grant Institutions and Tuskegee Institute have participated in the delivery of Cooperative Extension Programs to farmers and other eligible clientele in the 16 states. Unfortunately, housing for staff at 1890 institutions is inadequate in the quantity and quality necessary to accommodate office equipment, store resource material, maintain acceptable working conditions, and facilitate staff morale, all of which affect staff performance and quality programs.

Beginning in 1972, Congress sharply expanded the 1890 Extension effort under 3(d) of the Smith-Lever Act. The program was enhanced and expanded further by Section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 and subsequent amendments in 1981. While these efforts have improved the program funding situations, the facilities situation is critical. These needs vary on several campuses, however, some of the more common problems are:

1. Limited space in old buildings needing major renovation;
2. The current program funding requires staff expansion beyond facility capacity;
3. New facilities needed to expand state programs for such activities as conferences, fairs, and livestock shows; and
4. New facilities are needed to capitalize on new and emerging technologies.

We are proposing the following language for the authorization of 1890 Extension facilities:

Proposed new language

Sec. . (a) It is hereby declared to be the intent of Congress to assist the institutions eligible to receive funds under Section 1444 of the Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 USC 3221), (hereinafter referred to in this section as "eligible institutions"), in the acquisition and improvement of extension facilities and equipment so that eligible institutions may participate fully with the State Cooperative Extension Services in a balanced way on the extension needs of the people of their respective states.

(b) There are authorized to be appropriated to the Secretary of Agriculture for the purpose of carrying out the provisions of this section $10,000,000 for each of the fiscal years beginning with the fiscal year ending September 30, 1987, through the fiscal year ending September 30, 1991. Such sums shall remain available until expended.

Mr. Chairman, I want you to know we reaffirm our commitment to quality Extension Programs. Thank you for the opportunity to witness here today.

STATEMENT OF JOHN T. WOESTE, DEAN FOR EXTENSION, UNIVERSITY OF FLORIDA, AND CHAIRMAN, EXTENSION COMMITTEE ON ORGANIZATION AND POLICY, DIVISION OF AGRICULTURE, NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

Mr. Chairman and members of the Committee, my name is John T. Woeste, Dean for Extension, University of Florida. Mr. Chairman, the Taskforce has submitted our suggested amendments to the Committee in response to your request last year. We believe the basic extension authorities are sound. Thus, our suggestions are, on the whole, perfecting in nature, with the exception of one major area.

The core of our national nutritional research effort is in USDA and the land-grant system. The Extension service and our Home Economics schools have for over a half century worked to extend good nutritional knowledge. Even though resources for this effort have deteriorated due to inflation, we are still reaching a significant portion of the truly needy with nutrition information. However, we believe it is time to achieve a truly National Nutrition education program. Thus, we have forwarded to the Committee a proposed amendment to authorize such a national program.

Now, I would like to comment on two proposed amendments contained in Senate Bill 616.

Comments pertaining to amendments to section 1405, Senate bill 616 which reads as follows:

ELIMINATION OF EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM

Sec. 1405. Section 1425 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3715) is amended by striking out subsections (b) and (c) and inserting in lieu thereof the following new subsection: "(b) The Secretary may not conduct an expanded food and nutrition education program, currently conducted under section 3(d) of the Act of May 8, 1914 (7 U.S.C. 343(d)), after September 30, 1985."

The Expanded Food and Nutrition Program (EFNEP) is an education program devoted to upgrading the diets of low income families in America. Nearly two-thirds of the participant families are in the Food Stamp Program. Ninety-five percent of the participants entering the program are below adequate food intake levels with respect to milk - meat - bread and cereal - fruits and vegetables. The deficiency is most significant in milk and fruits and vegetables. Despite food stamps and other feeding programs, there is substantial "nutritional hunger" in America in 1985.

Since the inception of the program in 1968, 2.4 million families involving 9.9 million family members have participated in this educational undertaking. The program focuses heavily on families with young children. Many of these families have not only improved their diets significantly, they have re-entered the mainstream of our economy—the work force—and completely removed themselves from welfare programs.

In 1984 this program served 235,194 families and 454,847 youth in special EFNEP programs at 852 sites throughout the United States. The educational staff required to carry out the program involved approximately 600 professionals and 4,069 paraprofessionals. The majority of the paraprofessionals are employed from the indigent population and trained to do the educational work in their communities.

Family participants roll through the program very quickly; the average family is graduated in less than 18 months. One-third of the participants significantly improve their diets in 6 months; two-thirds show significant improvement in 12 months. The areas of most significant deficit in the diet—milk and fruits and vegetables—show the major changes in intake as participants proceed through the program.

The program adds demand for farm commodities—meat, milk, fruits and vegetables. The program, most importantly, adds to the quality of life these people can have for themselves through demonstration and education. We feel the program warrants continuation in America.

Comments pertaining to Amendments to Sec. 1404, Senate bill 616 which reads as follows:

EXTENSION ACTIVITIES RELATING TO SMALL AND MODERATE-SIZED FARMING OPERATIONS

SEC. 1404. Section 3(d) of the Act of May 8, 1914 (7 U.S.C. 343(d) (commonly known as the "Smith-Lever Act") is amended by adding at the end thereof the following new sentence: "Not less than 50 per centum of the amounts received by the Federal Extension Service under this subsection shall be used for the delivery of agricultural technology that can be used by small and moderate-sized farming operations, as defined by the Secretary of Agriculture."

Section 3(d) pertains to program areas of Extension under the Smith-Lever Act as directed by the Congress. Currently 85 percent appropriated under this Section is for nutrition education (Expanded Food and Nutrition plus Urban Gardening). Thus, only 15% is directly or indirectly applicable to production agriculture.

At the present time far more than 50 percent of the agriculturally mandated funds under 3(d) (Pest Management, Farm Safety, Pesticide Impact Assessment and Farm Financial Management) are used to deliver agricultural technology to small and moderate-sized farming operations—farms with gross incomes of less than $250,000 annually. The policy direction contained in Sec. 1404 is quite clear, and is compatible with present priorities throughout Extension. Thus, we suggest it is not necessary.

Mr. Chairman, thank you for the privilege to represent the state extension service directors of the United States before this Committee.

ANALYSIS OF THE SPECIAL GRANTS UNDER PUBLIC LAW 89-106

(Prepared by Dr. Clive Donoho, Director, Georgia Agricultural Experiment Station, Chairman, ESCOP Budget Committee Fiscal Year 1986)

SPECIAL RESEARCH GRANTS

The elimination of the Special Grant Program in CSRS/USDA will have a significant detrimental impact upon the State Agricultural Experiment Stations in this nation. NASULGC strongly supports the continuation of funding to those Special Grants programs that address major regional and national problems. Listed below are brief descriptions of these important programs.

Food and agricultural policies

The focus of the research is on the performance of the U.S. Food Production and Distribution System, with particular attention to the implications of structure to performance. Over the past two years, the research efforts have been concentrated on causes of changes and their effects on the present structure of producer-first handler markets and food manufacturing industries; the present organization and coordination of commodity subsectors; and the effects of law on system organization and performance and the effects on alternative legal arrangements.

The grant supports research being conducted at 18 agricultural experiment stations and ERS, USDA. The work is organized and being conducted under North Central Regional Project 117, entitled "Organization and Control of the U.S. Food Production and Distribution System."

Integrated pest management

The goal of integrated pest management research is to provide knowledge for the management of major crop ecosystems for effective pest control and to use this knowledge in the development of systems of management that significantly reduce yield losses, increase production efficiency and profitability, optimize economic return to producers and society, and minimize damage to the environment.

Beginning in FY 1985, the National Integrated Pest Management Program funds were awarded on a competitive basis. All State agricultural experiment stations were eligible to compete for funds on priority research identified by the regional and national planning process. This is a new nationwide research effort and the elimination of funding will substantially reduce an important program after only one year of funding.

Pesticide clearance

Work is underway at many of the State agricultural experiment stations to develop field research data on the efficacy and safety of pesticides and biological pest control agents, and to ascertain levels of chemical residues in treated foods or feeds to satisfy Federal requirements for registration of these materials for use on minor and specialty crops. The continuation of this program is essential if the U.S. farmer is to have adequate pesticides to grow most fruit, vegetable and specialty crops.

This work is being conducted at most of the State agricultural experiment stations, with those located in California, Florida, New York, and Michigan serving as organizational centers, and also as regional analytical chemical laboratories. The New Jersey station serves as national headquarters and provides liaison with Federal regulatory agencies, industries developing pesticides, and with other Land-Grant Universities.

Minor use animal drugs

In 1982, Interregional Research Project IR-4 was revised to include efforts to obtain FDA clearance of animal drugs which are intended for minor uses and for minor species. To initiate this drug clearance program, Special Research Grant funds for fiscal years 1982-85 were divided equally between the four IR-4 regional leader laboratories located in New York, Michigan, Florida, and California and the IRA-4 Headquarters at Rutgers University. Funds are being utilized by these laboratories and allocated to State Agricultural Experiment Stations to develop data required for meeting clearance requirements for animal drugs.

Pesticide impact assessment

Funds have been used as support for a net-work of State liaison representatives in the Land-Grant Universities of 53 States and Territories. CSRS has awarded 53 grants each year to support the efforts of these liaison representatives, who serve as focal points for State pesticide assessment activities in the areas of information collection and research. In addition, regionally distributed grant funds have been provided through this program to four lead States, which have subsequently awarded research support to SAES scientists to provide data for decisions related to the safe and efficacious use of pesticides. Research projects have been funded each year in the areas of crop loss including yield, quality and efficacy; application technology; pest resistance to chemical controls; human exposure and environmental fate of pesticides. Data from the program have been used by both USDA and EPA in evaluating cost/benefit studies of specific pesticides.

Rural development centers

These grants are awarded to four regional centers of excellence: the Southern Rural Development Center at Mississippi State University; the North Central Regional Center for Rural Development at Iowa State University; the Northeast Regional Center for Rural Development at Cornell University; and the Western Rural Development Center at Oregon State University. The centers have provided continuous planning and coordination for rural development research conducted by the States in their respective regions for over 12 years.

Animal health research

Research conducted under Animal Health Special Research Grants has centered on solution of the highest priority animal health problems as identified by the Animal Health Science Research Advisory Board. This research is developing and refining methods to prevent or reduce animal health losses due to infectious and noninfectious diseases and parasites in livestock, poultry, and major aquaculture species. Practical preventive measures and implementable health management systems are being developed to assist producers in preventing or reducing major causes of animal health losses.

This research is being conducted in the State agricultural experiment stations, the colleges and schools of veterinary medicine, and in other cooperating colleges and universities having animal health expertise.

Aquaculture

The Special Research Grants awarded in this program have provided funding for expanding the scientific and technical base of the aquaculture industry. Included in the program are studies to increase production efficiency through diet formulation, improved reproduction, disease and parasite control and improved water quality. Grants have been awarded to Alabama-2, Hawaii-1, Louisiana-1, Montana-1, Oklahoma-1, Oregon-2, and Tennessee-1. These studies have provided valuable new knowledge related to disease and parasite control, water quality, diet formulation and improved reproductive efficiency.

Germplasm resources

Special Research Grants provided for a portion of the program to insure an adequate reservoir of clonal fruit and nut germplasm resources needed by Americanagriculture. For fiscal year 1985 Special Research Grants were used to support the clonal germplasm repositories at Corvallis, Oregon; Davis, California; Geneva, New York; and Riverside, California. Grants provided funds for staffing and operations of the four repositories and for tomato and potato germplasm evaluations at the Iowa Agricultural Experiment Station and Wisconsin Agricultural Experiment Station, respectively.

Funds for the germplasm Special Research Grants have been used to operate and equip the clonal repositories at Corvallis, Oregon for small fruits, pears, hazelnuts, hops and mint; Davis, California for stone fruits, walnuts, figs, olives, pistachio and grapes; Geneva, New York for apples and Eastern grapes. Additionally, Special Research Grants funds have been used for tomato germplasm research at Ames, Iowa to determine fruit quality attributes and resistance to diseases. Potato germplasm work is being conducted at Madison, Wisconsin to find resistance to disease and insect pests. The nature of the clonal germplasm repositories requires acquisition, evaluation and long-term maintenance and storage of clonal germplasm.

Tropical and subtropical research

This program is being operated with the planning and coordination of the Caribbean Basin Advisory Group—CBAG—and the Pacific Basin Advisory Group—PBAG. State agricultural experiment stations that are members of CBAG are Florida, Puerto Rico and Virgin Islands; members of PBAG are Hawaii and Guam. Work is being conducted to improve the agriculture of the tropical and subtropical parts of the United States. Special Research Grants have been awarded for research on improved storage and shipping of crops, determining the land and water resources needed to better agricultural production, and improving crop and animal production by reducing pest losses and better productivity practices.

Grants have been awarded for research mainly in the areas of crop and animal productivity and protection; land and water resources needed for agricultural productivity; and postharvest physiology and storage of crops.

New national research program

ESCOP is recommending the establishment of three new national research efforts to be funded under the Special Grants Program. These new programs include: 1) Impact Assessment of Biotechnology; 2) Biological Control of Pests; and 3) the Conservation and Protection of our nation's soils, water, and forest resources. All three programs are extremely important to our national interest and to the protection of this nation's agriculture.

Special problem grants

There are a select few research problems that are state specific in importance or situations where one or two states conduct the major research effort for a region or for the nation. ESCOP recommends that many of these state specific grants be continued, especially if those grants support states that impact the region or a large number of states.

STATEMENT OF DR. SIDNEY H. EVANS, DIRECTOR OF AGRICULTURAL RESEARCH, NORTH CAROLINA AGRICULTURAL & TECHNICAL STATE UNIVERSITY

Mr. Chairman and members of the committee, I am Sidney H. Evans, Research Director for Agricultural Research at North Carolina Agricultural and Technical State University. It is a pleasure for me to appear before you this morning on behalf of the 1890's and Tuskegee Evans-Allen Research programs.

HISTORICAL OVERVIEW—1890 EVANS-ALLEN RESEARCH PROGRAM

The 1890 Institutions are inextricably woven into the educational and research fabric of the American society. They continue to serve a unique clientele from the standpoint of disadvantaged youth, small and limited resource farmers and poor communites. Our ability to train students, who later enter graduate school and the world of work to become scientists, where they compete favorably with students from the larger, prestigious schools is well documented. Our research thrust which is the third leg of support for the land-grant system is a relatively new experience for the 1890's. Even though the 1890 amendment to the Morrill Act of 1862 gave these schools land-grant status, nearly 80 years passed before funds were provided for them to conduct research in the food and agricultural sciences.

The 1890's and Tuskegee research programs which started in 1972 under Public Law 89-106 legislation funding authority have grown considerably, notwithstanding the lack of adequate facilities and a relatively low initial funding base. The Facility Bill appropriation is a commendable effort in overcoming past omissions and neglect of this important subgroup of the land-grant system. The continuation of this appropriation as designed by Congress in the 1981 amendment to the Farm Bill of 1977, will allow these institutions to effectively concentrate their annual funds on conducting research as opposed to having to share them for the acquisition of basic research facilities and equipment.

At this point, I would like to focus very briefly on the progress the 1890 Institutions and Tuskegee have made during the past 12 to 15 years of receiving federal support for their research programs and how these research programs are being carried out collaboratively with 1862's at the local, regional and national levels.

Research concentration among the 1890's is currently shifting from applied and empirical research to more basic and pure research; the latter a more high risk research directed at long-range results and benefits.

Currently, there are over 200 scientists conducting research at the 17 institutions. The 1890's have traditionally contributed to the solution of problems of limited resource operators, both through research and extension. Our expertise has been exemplified in small farm and family farm research and the development of the rural community. With the acquisition of more and better facilities and larger annual funding base, the research programs of the 1890's and Tuskegee are developing into more basic research in plant and animal genetics, animal physiology, food science, human nutrition, soil, water and energy research to name a few.

An increasing amount of our research is being done in collaboration with the 1862 Institutions on the local, regional, and national levels as earlier stated. Regional projects have been developed in small farm research, poverty research, low income housing, soybean research and a project is currently being developed to attack the imbalance between the supply and demand of agricultural scientists. Further the 1890's need to increase their research in such areas as the dynamics of soil, plant and water systems, in order to better understand the metabolic aspects of hormones in relation to plant growth and development, animal health and protection, human nutrition, market systems (domestic and foreign) and the application of electronic technology.

Our enthusiasm is high, our efforts are diligent and sincere and our competency to do scientific research is improving. We are soliciting the committee's support of the 1890's and Tuskegee research programs to enable us to continue to build on the solid foundation that has been established over the past decade by Congress, USDA and other supporting agencies.

We appreciate the support that your committee has given agriculture in the past, by providing leadership and influence in Congress to support research, extension and resident instruction. We urge you to continue these efforts for the land-grant system in general and its sub-group counterpart—the 1890's and Tuskegee.

RECOMMENDATIONS FOR THE 1985 FARM BILL—EVANS-ALLEN RESEARCH PROGRAM

On behalf of the 1890 Institutions and Tuskegee, I am submitting two (2) recommendations to be incorporated in the 1985 Farm Bill.

Issue.—Extend authority of the 1890 Facilities Bill (P.L. 97-98, Section 1433) to 1987. "Delete September 30, 1982 and insert in line 5 after September 30, 1986 and September 30, 1987.

Rationale.—The 1890 Facilities Grant was passed by Congress in December, 1981 and appropriations were authorized to begin in FY 1982. The first appropriation was made in FY 1983. Therefore, in order for the 1890's to receive the entire 5-year appropriation, an additional year—1987 has to be added.

Issue.—A carry over of 5–10 percent of Evans-Allen Funds similar to the language of the McIntire-Stennis in order to provide flexibility in improving fiscal management of 1890 Evans-Allen funds. It is virtually impossible to arrive at a zero balance at the end of a given fiscal year and then smoothly move into the current year's operation the next day.

Rationale.—For the 1890's as a group, there are little or no funds for research coming from the states or other sources. Therefore, under the present law, the 1890 research program has to arrive at a zero balance at the closing of the fiscal year, before moving into the next fiscal year. To have at least a 5% carry over would facilitate the following:

1. Improve fiscal management

At the close of the fiscal year under present law, it is necessary to make excessive adjustments and in-house budget revisions in order to accomplish a zero balance. It is impossible to shut down the operation 2 to 3 months before the year ends to allow all financial documents to be processed from the origin to destination, the latter being liquidation of all open commitments. This is particularly true for large items going through the States' bid process.

2. More flexibility

Since there are no other appreciable funds to conduct research in the 1890's, there is no flexibility to deal with emergencies and last minute necessary expenditures that certainly will occur; such as necessary travel, feed and gasoline, to name a few. Despite best efforts to estimate these expenditures, traditionally they do not result in zero balances by object codes nor projects.

3. Provide safety and eliminate the return of funds

A carry over would provide a margin of safety against over or under expenditure in the aggregate for the entire 1890 Evans-Allen program. It would be a hedge against the frequent necessity of having to return funds to the treasury or have funds withheld from the ensuring year's appropriations, due to over expenditures in the past fiscal year.

Therefore, I recommend that the above issues be included in the 1985 Farm Bill for the 1890 Evans-Allen Research Program.

STATEMENT OF DR. JOHN W. OREN, DIRECTOR OF EXTENSION, AND ASSOCIATE DEAN, COLLEGE OF AGRICULTURE & HOME ECONOMICS, NEW MEXICO STATE UNIVERSITY

Cooperative Extension—a unique federal-state-local partnership—is a dynamic information delivery system that has evolved through its seventy year history. Created to disseminate useful information and to encourage beneficial economic and social change, Extension has changed and reshaped its own educational programs over the years to relate to the changing times and changing needs of local people. Extension is particularly suited to help people deal with the rapid changes taking place today.

Thomas Jefferson, who dreamed of an eductional system similar to land-grant colleges of which Cooperative Extension is a part, would be popping his vest buttons with pride. He would note that Extension teaches people in an informal setting, where they are—on farms and ranches; in basements of courthouses; in firehouses of local volunteer fire companies; in community centers; in school houses; and, in homes. And, Mr. Jefferson would recognize that Extension agents continue to help people help themselves with real life situations.

The basic mission of the Cooperative Extension Service continues to be the integration and application of useful knowledge from the best minds in land-grant universities, the U.S. Department of Agriculture, and other sources. Extension agents, in virtually every county in the United States, accumulate knowledge from this vast base and mold appropriate pieces into answers to people-problems.

Many farmers, ranchers, other business people, homemakers and young people find that the research-extension system and the County Agents continue to find the answers. Extension does make a difference in their lives, helping people deal with change and improve their quality of life.

Agricultural producers, and many related groups caught in the squeeze between costs and incomes, face tremendous challenges in the struggle to maintain an acceptable standard of living. Farmers and ranchers, who are vital to maintaining the present quality of life for all Americans, are extremely pressed to remain in business. The Cooperative Extension Service system is diligently working to develop educational programs to help agriculture's men and women regain profitability in agriculture and deal with today's very difficult economic climate.

The Cooperative Extension Service has the information to help many people in our country maintain and improve their lifestyles. In addition, people with limited resources in our rural areas and cities continue to find help from the Cooperative Extension Service. However, Extension's teaching resources must remain in place to provide these answers in the country, towns and cities where people live. The Cooperative Extension Service is the only organization that has the knowledge base and the teachers available throughout the nation to continue to help people help themselves.

It is with these points as a framework that the following recommendations for adjustments to the Fiscal Year 1986 Budget are offered:

RECOMMENDED MODIFICATIONS TO FISCAL YEAR 1986 EXECUTIVE BUDGET

A—Smith-Lever 3(b) and 3(c) (+$12,116,000)

A five percent increase in Smith-Lever 3(b) and 3(c) formula funds is proposed. These funds are essential to the basic Congressional mandate of the Smith-Lever legislation. Based on the increase in this category, Cooperative Extension can continue vital programming in such areas as agricultural marketing, effective enterprise analysis, improved management, family financial management, and youth development. Many states have made substantial allocations of resources to help farmers, ranchers and others take advantage of computers and other electronic communications and management tools through the use of state, county and private funds. New funds proposed in the 3(b) and 3(c) categories will help farmers and other citizens deal with the serious and growing problems in the depressed agricultural economy of the 1980's.

B—Necessary Restoration to Insure Maintenance of Critical and Vital Special Programs

Smith-Lever 3(d) funds are distributed to states to meet critical problems that Congress has directed Extension to address. Restoration of these severe cuts is essential if Extension is to maintain the momentum of the special efforts, and have people fully benefit from past investments. Extension's ability to address changing local needs is greatly impacted by these funds. The 3(d) funds are vital if Extension is to effectively respond to Congressionally-identified critical needs.

1—Expanded Food and Nutrition Education Program (EFNEP) (+$60,354,000)

If Cooperative Extension is to continue to develop self-reliance, through proper nutritional habits, of families and individuals, it is essential that the $60,354,000 funded in the Fiscal Year 1985 Budget be restored. Since numerous types of direct support are being withdrawn, it is even more critical that education be provided to help families with proper nutrition and overall family stability. This is of utmost importance for pregnant women and young children. The EFNEP program has clearly demonstrated its effectiveness in helping low-income families improve their diets. A mandated national evaluation of EFNEP clearly shows it to be effective.

2—Integrated Pest Management (+$7,531,000)

The elimination of funds for the Integrated Pest Management Program (IPM) would seriously curtail the Extension Service's capability to adequately conduct an array of projects. These projects are targeted at the unique needs of each state as they deal with major concerns about water quality, environmental impact, and farm production costs. Concerns in these areas dictate a highly-effective, integrated, systems approach to pest management. The restoration to the Fiscal Year 1985 Budget level will insure the survival of programs in this vitally-important economic and environmental area.

3—Pesticide Impact Assessment (+$1,716,000)

Agricultural chemicals are a vital and important insect-suppression tool. We must continue to evaluate chemical materials used to protect our nation's food and fiber products. Restoration of the Pesticide Impact Assessment line item to the FY 1985 budget level will insure continuing evaluation of agricultural chemicals and help speed up access to information on effectiveness, compatibility, and proper use. Continued support will allow continuation and further development and refinement of this system.

4—Urban Gardening (+$3,500,000)

Restoration of the Urban Gardening line item to the FY 1985 budget level will provide urban youth and adults with the opportunity to grow plants for food, environmental improvement and self satisfaction. Continued application of agricultural science in food production contributes to the improvement in diets of gardeners. It will also further enhance community cooperation and create wide-spread satisfaction among participants. This program enables garden programs with a market value of more than $20 million annually.

5—Rural Development Centers (+$500,000)

The Rural Development Centers were supported through the federal administration budget in the 1985 budget. Support for these centers in FY 1985 was $500,000. We request these funds be restored as a separate 3(d) item at the FY 1985 level of $500,000. This will allow the centers to continue to provide leadership and conduct technology transfer projects so desperately needed in rural America today.

6—Regaining Profitability in Agriculture Through Farm Financial Management (+$6,000,000)

The $1,000,000 provided in the FY 1985 budget served as a vital catalyst to initiate and expand specific programs to meet the needs of financially-distressed farm families in 22 states. Of the many innovative methods implemented, some included counseling centers, hot lines, special workshops and cooperative efforts with lenders and other public agencies. This initial investment has provided a beginning to help cope with the tremendous crisis that exists in American agriculture today. Producers are facing their worst financial crisis in history. The crisis does not stop at the farm gate. All of agri-business and rural communities are endangered because of the lack of buying power of farmers.

Suport is solicited to increase the FY 1985 level of $1,000,000 to $6,000,000 in FY 1986 so Extension can further enhance programs to deal with the crisis in agriculture. Thus, we can lessen the increased rates of farms going out of business, assist depressed rural communities and reduce increasing welfare costs. Funding of this request can also help avoid the possibilities that the general public would pay higher food and fiber prices, and result in severe distortions in the availability of some agricultural commodities. By regaining profitability in agriculture, severe negative impacts on the economics of small towns and rural areas across this nation can be avoided, including negative impacts on the banking industry in general and rural lending institutions in particular.

7—District of Columbia Extension (+$49,000)

An increase of $49,000 is proposed to cover increased operating costs and improve the District of Columbia's ability to attract and maintain competent staff.

8—1890 Colleges and Tuskegee Institute (+$887,000)

To insure continuation of the on-going programs and enhance program efforts for primarily small farms and limited-resource families served by our 1890 Colleges and Tuskegee Institute, an increase of $887,000 for the 1890 Colleges and Tuskegee Institute is proposed.

9—Renewable Resources Extension Act (+$2,500,000)

The Renewable Resources Extension Act of 1978 recognized the critical need to help private range and forest land owners increase productivity of their renewable resources. We urge that funding for the RREA be restored at the FY 1985 level of $2,500,000. We strongly feel the forest, range and wildlife resources being managed by private ownership are yielding far less than their potential. With accelerated use of existing technology, the profitability of these resources can be increased and the ever-growing demand upon renewable resources will be met.

10—Federal Administration ($0)

No change from the executive budget proposal is recommended. The necessary additional support for program coordination, national program leadership and organizational relationship responsibilities will be provided to the federal administration through the four percent set aside for administration provided under the Smith-Lever formula.

FISCAL YEAR 1986 BUDGET REQUEST FOR COOPERATIVE EXTENSION

[In thousands of dollars]

Extension	Fiscal year 1985	Executive budget	NASULGC recommend
Smith-Lever: Sections 3b and 3c	241,484	241,484	253,600
Section 3d:			
EFNEP	60,354	0	60,354
Pest Management	7,531	0	7,531
Farm Safety	1,020	0	0
Pesticide Impact Assessment	[1] 1,716	0	1,716

FISCAL YEAR 1986 BUDGET REQUEST FOR COOPERATIVE EXTENSION—Continued

[In thousands of dollars]

Extension	Fiscal year 1985	Executive budget	NASULGC recommend
Urban Gardening	3,500	0	3,500
Rural Development Centers	[2] (500)	0	[2] 500
Farm Financial Management (regaining profitability in agriculture)	1,000	0	6,000
D.C. Extension	983	983	1,032
1890 Colleges and Tuskegee Institute	17,741	17,741	18,628
Renewable Resources Extension	2,500	0	2,500
Federal Administration	5,898	4,600	4,600
Total	343,727	264,808	359,961

[1] Many states will continue Farm Safety from existing funds.

[2] Funded under Federal Administration in fiscal year 1985.

COMPARISON OF FEDERAL
ALLOCATIONS TO STATES FY85-FY86 BUDGET (EST.)

FY85=SL3b,c,d;RREA; 1890's & DC FY86=SL3b&c;1890's,DC	FY85 ALLOCATION	FY86 ESTIMATE	DIFFERENCE	% of Decr. in Fed'l Funds	% of Decr. for St/ Fed'l Funds
Alabama	$ 10,342,998	$ 8,003,119	$ -2,339,879	-22.6%	-8.9%
Alaska	1,228,719	900,497	- 328,222	-26.7	-5.4
Arizona	2,563,212	1,615,084	- 948,128	-36.9	-12.7
Arkansas	7,615,265	5,969,042	-1,646,223	-21.6	-8.1
California	10,059,223	6,066,714	-3,992,509	-39.6	-7.9
Colorado	3,397,781	2,502,582	-895,199	-26.3	-5.6
Connecticut	2,343,025	1,731,606	-611,419	-26.0	-11.7
Delaware	1,618,317	1,313,710	-304,607	-18.8	-10.8
D.C.	943,680	943,680	--	--	--
Florida	7,158,966	4,709,482	-2,449,484	-34.2	-7.7
Georgia	11,031,277	8,249,110	-2,782,167	-25.2	-6.3
Hawaii	1,424,187	1,083,275	-340,912	-23.9	-7.7
Idaho	2,728,223	2,067,191	-661,032	-24.2	-8.6
Illinois	10,993,527	8,179,532	-2,813,995	-25.5	-12.1
Indiana	8,838,795	7,248,299	-1,590,496	-17.9	-6.4
Iowa	8,915,576	7,680,862	-1,234,714	-13.8	-4.5
Kansas	5,778,605	4,824,233	-954,372	-16.5	-3.7
Kentucky	10,954,940	9,122,803	-1,832,137	-16.7	-6.7
Louisiana	8,005,109	5,605,675	-2,399,434	-29.9	-9.4
Maine	2,397,714	1,801,963	-595,751	-24.8	-12.0
Maryland	4,666,211	3,531,137	-1,135,074	-24.3	-7.5
Massachusetts	3,484,245	2,211,186	-1,273,059	-36.5	-14.9
Michigan	9,604,546	7,413,281	-2,191,265	-22.8	-8.7
Minnesota	8,608,871	7,288,549	-1,320,323	-15.3	-4.6
Mississippi	9,421,606	7,260,439	-2,161,167	-22.9	-8.6
Missouri	10,532,721	8,501,002	-2,031,719	-19.2	-7.7
Montana	2,625,984	2,059,199	-566,785	-21.5	-6.9
Nebraska	5,036,967	4,152,639	-884,328	-17.5	-4.7
Nevada	1,268,063	-908,345	-359,718	-28.3	-7.2
New Hampshire	1,661,954	1,313,697	-348,257	-20.9	-9.2
New Jersey	3,755,584	2,384,930	-1,370,654	-36.4	-11.5
New Mexico	2,464,549	1,730,684	-733,865	-29.7	-8.9
New York	11,154,651	7,016,572	-4,138,079	-37.0	-10.1
North Carolina	15,022,688	12,142,684	-2,880,004	-19.1	-6.5
North Dakota	3,375,755	2,835,201	-540,554	-16.0	-5.2
Ohio	11,223,025	8,568,487	-2,654,538	-23.5	-9.2
Oklahoma	6,838,508	5,473,259	-1,360,249	-19.8	-6.4
Oregon	3,813,847	3,041,096	-772,751	-20.2	-5.1
Pennsylvania	11,444,742	8,379,787	-3,064,955	-26.7	-13.0
Rhode Island	1,208,786	836,221	-372,565	-30.3	-19.0
South Carolina	7,688,457	5,857,246	-1,831,211	-23.8	--8.6
South Dakota	3,441,285	2,895,737	-545,548	-15.8	-6.6
Tennessee	11,112,132	8,703,198	-2,408,934	-21.6	-9.3
Texas	18,082,177	12,837,649	-5,244,528	-29.0	-8.4
Utah	1,931,999	1,414,963	-517,036	-26.7	-6.7
Vermont	1,760,858	1,419,240	-341,618	-19.0	-10.2
Virginia	9,447,426	7,535,210	-1,912,216	-20.2	-5.2
Washington	4,530,995	3,513,941	-1,017,054	-22.2	-5.9
West Virginia	4,634,058	3,537,435	-1,096,623	-23.6	-11.5
Wisconsin	8,667,669	7,298,973	-1,368,696	-15.7	-4.3
Wyoming	1,616,097	1,265,802	-350,295	-21.6	-5.9
Amer. Samoa	738,053	575,125	-62,928	-8.5	-6.5
Guam	800,724	717,926	-82,798	-10.3	-6.6
Micronesia	803,158	733,795	-69,363	-8.6	-5.8
Puerto Rico	7,578,065	6,086,277	-1,491,788	-19.6	-12.4
Virgin Islands	783,336	701,321	-82,015	-10.4	-6.5

STATEMENT OF DR. RICHARD E. DIERKS, COMMISSION ON VETERINARY MEDICINE, NATIONAL ASSOCIATION OF STATE UNIVERSITIES & LAND-GRANT COLLEGES, AND DEAN, COLLEGE OF VETERINARY MEDICINE, UNIVERSITY OF ILLINOIS

I am Dr. Richard E. Dierks, Dean of the College of Veterinary Medicine, University of Illinois. I am also currently serving in the capacity of Vice Chairman, Commission on Veterinary Medicine, Division of Agriculture, National Association of State Universities and Land-Grant Colleges. I am pleased to have the opportunity to offer testimony supporting the need for inclusion of authorizations to support animal health and disease research in Title XIV of the 1985 Farm Bill.

1985 is a year of many contrasts and paradoxes. The USDA issued the 1984 Yearbook of Agriculture entitled, "Animal Health—Livestock and Pets." In Chapter 1 of that 646-page text on animal diseases, it states that there are three important areas of responsibility in animal health. I quote, "First, your responsibility, as owner or caretaker. Second, the responsibility of the veterinarian, and finally, the Government has a distinct and important role in assuring the health of animals." Yet, for the past 7 years, the USDA has failed to support any funding for animal disease research under Sections 1433, 1434, or 1414C-1 of the 1977 and 1981 Farm Bills even though Congress, in its wisdom, has in each of those 7 years added critically needed animal disease research support to the USDA budget under Sections 1433 and 1414C-1 of P.L. 95-113. This funding has allowed veterinary college, veterinary science department, and agricultural experiment station scientists to address a number of animal diseases that curtail production efficiency for American farmers. Unfortunately, the USDA is consistent in now having removed the authorizations for these important sections from the Executive Branch version of Title XIV of the 1985 Farm Bill.

The funds allocated to the USDA for research development are the lowest total federal funds for any major federal research agency. There has been a constant decline in the USDA share of the federal research and development budget from 39% in 1940 to the current low of 1.5 percent. It is imperative that the USDA research programs receive more realistic support if U.S. agriculture is to continue to feed the United States and much of the world with the present low cost food supply.

With the emphasis previously given to the "Green Revolution" and now agricultural biotechnology, many in our society have, in the view of the livestock industries, given inordinant emphasis to support for plant research. This area of research is important, but research is also sorely needed to improve animal production and protection and to provide quality animal protein for consumers. The USDA Economic Research Service has provided the following figures for agricultural income:

[Income (in billions)]

	Livestock	Crops
1982	70.10	74.60
1983	69.20	69.50
1984 (estimate)	70.74	68.72
1985 (estimate)	70.74	69.73

It will vary slightly from year to year; however, agricultural income is essentially equally derived from plant and animal products. When you consider that the vast majority of cereal grains and all forages are processed through animals, it provides a true picture of how vital healthy food animal populations are to the nation's agricultural economy. Commodity surpluses are high now; without animals they would be enormous. About 70 percent of our total agricultural area in this country is rangeland, government grazing area, permanent pasture or hayland. The available photosynthetic energy captured by the grasses and hays grown there has to be cycled through livestock if it is to be used for human nutrition. The importance of livestock becomes even clearer when you realize that the photosynthetic or solar energy used for human nutrition from about 87 percent of our nation's total agricultural area is cycled through livestock—and enters the diet as various meat, milk, and poultry products.

If we did not have Sections 1433 and 1414C-1 support, what would be left to support animal disease research under the USDA budget? The 1983 federal expenditures for the Cooperative States Research Service would be as follows:

1983 FEDERAL HATCH ACT EXPENDITURES

[In millions]

Area	Animal research	Plant reserch
Protection	9.0	23.3
Production	32.2	33.0
Soil and Water Conservation	0	16.4
Total	41.2	72.7

Congressional action has provided approximately $14 million each year to support animal disease research under 1433 and 1414C–1. USDA testimony routinely includes ARS animal disease research support in their tables of comparable support. That support of over $50 million is vital to our nation's livestock safety, but approximately 85% of those funds go to support the Plum Island facility and the National Animal Disease Center, Ames, Iowa. The Plum Island efforts are devoted entirely to research on foreign animal diseases, while much of the research at NADC is directed towards specific animal diseases like brucellosis and pseudorabies in support of national control and eradication efforts. The numbers of veterinary research scientists are also larger at only one of the 27 veterinary colleges than within the ARS.

Research clearly tends to go where the funding is. Unfortunately, for the animal health and disease field, the best research funding opportunities for university-based veterinary scientists have been in the biomedical research area for man—not in food animal disease control and prevention. The research capacity available in veterinary colleges and veterinary science departments has been amply demonstrated over the past 5–6 years with the competitive allocation of animal disease research grants under the Section 1414C Special Grants program. Only 19% of the proposals submitted have been funded, and only at that percentage with specific funding level caps and negotiated reductions in scope for many individual grants.

The immediate need is for the reinstatement of Section 1433, Section 1434, and Competitive Grant funding authorizations within Title XIV of the Farm Bill for animal disease research. This would provide the base for a very large segment of the nation's veterinary research community to gain funding to improve the efficiency of animal production systems through reduction of disease losses. Diseases currently account for about 20% of the losses in livestock production potential. If these losses could be eliminated, livestock production would be worth $87.5 billion a year compared to the current $70 billion. The trend toward large livestock operations, which has resulted in farms with thousands of swine and cattle and even millions of chickens, is expected to continue and will result in even greater concentrations of animals. Economic losses or the prevention of diseases under those conditions can dramatically effect efficiency and profitability. Elimination of some of the production diseases would also make us more competitive in the international markets for meat and livestock products.

A combination of competitive grants and base funding for animal biotechnology and health management systems is needed. Base support is required for start-up funds for new faculty, exploratory research, local disease programs, upgrading research equipment needs, and responding to rapidly emerging diseases. Targeted competitive grant problems addressing the area of genetic engineering of microorganisms, genetic engineering of embryos, immunobiology, improved diagnostic technology, and computerized systems analyses are examples of areas that should be given high priority. An effective competitive peer-reviewed granting system will provide for the rapid development and implementation of research findings.

The authorizations under Section 1433, Section 1434, and Competitive Grants to support animal disease research would allow this to happen. I am urging you to reinstate these sections in Title XIV as recommended by this group and the NASULGC Division of Agriculture.

Thank you for your interest and attention.

STATEMENT OF JOHN T. SHIELDS, MANAGER, NATIONAL FERTILIZER DEVELOPMENT CENTER, TENNESSEE VALLEY AUTHORITY

Mr. Chairman, I am John Shields, manager of the Tennessee Valley Authority's National Fertilizer Development Center at Muscle Shoals, Alabama. I appreciate this opportunity to testify on behalf of the Agricultural Research and Extension System which has served this Nation so well. Our Land-Grant University System has had a marvelous record of creating new agricultural technology and stimulating the adoption of new practices across the U.S. The benefits of this work have enabled America's farmers to produce abundant food and fiber for domestic consumption while generating billions of dollars in export sales, which has been a bright star in a rather dismal galaxy of deficits.

The impressive performance of America's farmers is well documented—each farmer produces enough food and fiber for 76 other people. An estimated $34 billion worth of U.S. farm products were exported in 1984. About 22 million people are employed in U.S. agriculture—from the farmer growing food and fiber to the clerk in the checkout line at the local supermarket. U.S. farm assets are worth nearly a trillion dollars—70 percent of the capital assets of all manufacturing corporations in the country. These are just a few of the many positive features of American agriculture.

The land-grant universities, industry, the Agricultural Research Service, and other public laboratories, including our own, have combined to make U.S. Agriculture the envy of the world. Agricultural Research and Extension have had a profound impact on the efficiency of farm labor. Surplus labor left agriculture for employment in other sectors of our economy—agribusiness, industrial factories, high-tech industries, service industries, and other labor-absorbing institutions. But, without the sharply increased labor efficiency of Research and Extension along with the development of power machinery, diversity of labor into these other areas would not be possible.

Some would suggest that our agriculture is too efficient—that we produce more than we can use domestically and more than the world market can absorb. If that be the case, some would ask, why should we continue to invest public funds in Research and Extension? Eliminating or severely reducing our national committment to Research and Extension would be a shortsighted view. Research is not a short-run phenomenon. Rather, it is a long-term insurance policy for American consumers. We must have a strong, viable, effective Research and Extension commitment to provide food security for the nation. Our national policy must consider the vital importance of providing a continued assurance of an abundant, safe supply of food and fiber for consumers; a reasonable return to producers; and the protection and maintenance of our soil, water, and other resources in order to effectively and efficiently meet future food and fiber needs. The basic needs of consumers today and in the future are too important to do otherwise.

Our Agricultural Research and Extension System will be needed even more in the future to help meet the objectives of such a policy. Research must generate and support systems that enable farmers to produce profitably under continuing pressures from rapidly changing domestic and international economic situations, energy supply and prices, predators and diseases, environmental constraints, and a host of other related factors. Extension must continue to speed the adoption of new technology on America's farms so that research benefits are readily available to the consumer.

At no time in their history have the university research and extension programs and the ARS been more responsive to the needs of farmers and agribusiness and, at the same time, more responsible toward society's concerns. While conducting an all-out effort to develop and introduce systems of agriculture which conserve and improve our soil and water resources, they are also mindful that systems which address societal environmental concerns are doomed if these systems do not provide the farmer a reasonable return for his time and investment. They are also providing the fertilizer industry and farm equipment manufacturers current information on how to adjust their products to fit rapidly emerging soil and water conserving agricultural systems. Proof that these services are relevant can be found in the fact that the fertilizer industry is today funding more and more research directly within the university system.

Within our own agency, we are concerned with similar issues. Jointly, with the Land-Grant universities, we are developing and testing technology to improve the efficiency of fertilizer use on the farm and developing energy efficient and environmentally safe manufacturing processes and improved products. These programs are complementary to those of the university research and extension service and ARS, and, in fact, are enhanced because we work very closely with these services to ensure that our program is responsive to national requirements for fertilizer research, development, and use. In fact, TVA's original Board of Directors saw the wisdom in establishing a formal link with the Land-Grant universities. We continue that partnership today with cooperative research or education programs with the

Land-Grant universities in more than 40 states and Puerto Rico. We carry this delivery system a step further by including the research and business knowledge of the industry.

In our lifetime, we in this country have been so well fed that we tend to ignore some rather basic facts of life. The basic importance of food—and programs to assure plenty of it—was highlighted most effectively by Dr. Norman Borlaug, world-renowned scientist, nobel laureate, and father of the Green Revolution.

Dr. Borlaug incisively observed that "political unrest awaits those who fail to produce food for their people." He added that a "package" approach is required for efficient agriculture—better crop varieties, fertilizers, pesticides, and other proven practices. This is the role that the universities fill so effectively—testing and proving and packaging.

Mr. Chairman, U.S. agriculture is the world's most productive system for meeting the food and fiber requirements of its own people and for millions of others around the globe. The nation's Research and Extension System is also world renowned because of its historic and dramatic role in helping develop this system. Not only must our Agriculture Research and Extension System have the capacity to meet future world needs in research and technology transfer but also must develop and train the scientists of the future. Being a product of the Land-Grant system, I am confident that with the proper resources and public support the United States will continue its world leadership in agriculture because of its commitment to excellence in research and extension.

Mr. Chairman, thank you for this opportunity to comment on the importance of research and extension to our national well being.

STATEMENT OF JANE SCHENCK, REPRESENTING AMERICAN HOME SEWING ASSOCIATION

Mr. Chairman and members of the Subcommittee, I am Jane Schenck, Education Director of the Pellon Company, Limited Partnership, New York City, and a member of the Education Committee of the American Home Sewing Association. I am appearing before you today on behalf of the 600 corporate and retail members of the association.

Our association is the only organization which represents the entire home sewing industry in the United States, including such areas as fabrics, fibers, patterns, notions, trimmings, sewing machine manufacturing, retailing, wholesaling and publishing. Today the sewing industry generates over $3.5 billion in sales annually through 20,000 retail stores serving over 40 million home sewing consumers. In addition, over 40,000 educators, junior and senior high school teachers, college professors, extension home economists and retail educators are actively engaged in sewing skill development.

All of these businesses and all of these people—manufacturers, wholesalers, retailers, educators and consumers—are the beneficiaries of educational programs that have taught sewing skills to millions of Americans and which, in turn, have created job opportunities for them and have enhanced the quality of their family life.

Mr. Chairman, the American Home Sewing Association would like to recommend to this subcommittee a new program for inclusion in the U.S. Department of Agriculture's Extension Service Smith-Lever Act, Section 3(D) funding category entitled "Sewing Education". The industry is mindful of the fact that the Administration, in its Fiscal Year 1986 budget presentation to Congress, recommended total elimination of all specifically targeted Section 3(D) activities including pest management, pesticide clearance, farm safety, food and nutrition education, and urban gardening. However, we believe that this Subcommittee should recommend retention of all Smith-Lever Section 3(D) programs, and that sewing education should be added to the list of USDA-targeted activities in this area.

A sewing education program, with the total support and cooperation of the sewing industry and the members of our association, would provide a basis for increased participation by citizens in Extension Service activities throughout the United States in urban, as well as rural communities. It is probably one of the few agriculture programs that would provide a program for direct participation by people in urban areas.

While clothing and textiles represent a modest portion of the existing 4-H Extension Service education program, clothing is a basic necessity of life, and therefore, sewing and clothing-related programs take on an economic importance to our society that far exceeds that of other desirable but less fundamental programs. Sewing skills enable people to lower their expenses for clothing and to obtain income through utilization of their sewing skills by performing part- or full-time sewing related work. People do not need extensive facilities or equipment to make clothes.

Since sewing is a learned skill, people need to be taught the basic skills necessary to transfer design concepts and fabric into useful products either for their own use or for sale to others. Given the problem of high unemployment in some areas, the importance of providing programs that will serve the special clothing needs of targeted population groups is critical. This type of agricultural-related program has an appeal to constituents of every member in the Congress.

At the present time, Mr. Chairman, our industry cooperates through corporate sponsorship of specific programs in the 4-H area. For example, in 1983, over 408,000 4-H students enrolled in clothing courses and over 175,000 participated in a Fashion Revue program. Both of these programs are economically supported by the industry. A list of participants (by state and territory) in these two 4-H programs is included at the end of my remarks. The AHSA and the National 4-H Council have cooperated in the past on these programs and will do so in the future.

What the industry is suggesting to the Congress, Mr. Chairman, is that a sewing education program has the potential of not just involving 563,000 young people. It can also make a major impact on the over 2.9 million individuals working with the Extension as volunteers, the 4.4 million 4-H enrollees in 1984, and the 112 million citizens estimated to be impacted by Extension Service programs. In fact, Mr. Chairman, the American Home Sewing Association feels that this sewing education program should be a part of the Extension Service Smith-Lever Section 3(D) area for several important reasons:

1. The AHSA already works cooperatively with the Extension Service in a variety of areas such as co-sponsorship of our highly effective Sewing by Satellite teleconference;
2. The return for the dollar is enhanced by the impressive number of volunteers who are unpaid, yet are effective influences in their community; and
3. Extension works with a cross section of clientele and has offices and staff in place at the county and state level.

I would like to relate, Mr. Chairman, a personal grassroots testimonial on sewing education by a former 4-H Massachussetts resident, Miss Kathleen Mullins, who at the age of 16 made the following statement on her 4-H textile and clothing courses:

"I have been in the Clothing Project for five years and I am really enjoying it. When I first began my clothing project, I used simple patterns to help me in my basic skills, but as I grew older, I began using patterns with complicated and challenging details, and then I found myself showing younger club members basic sewing skills. Sewing has helped me to motivate myself by budgeting my time and setting an hour or two a day away especially for sewing. Sewing has also helped me to figure out problems for myself. Finally, sewing has helped me to look at the finished product with a sense of pride and accomplishment. By sewing some of my clothing, I am saving a great deal of money and gain a sense of self satisfaction. It is truly a skill that will be useful to me for the rest of my life."

A sewing education program can be a cooperative effort between the U.S. Department of Agriculture and the private sector. The type of program we envision would serve the young and old, poor and rich, urban and rural. It would be developed with support from the industry in order to expand the number of individuals in our society that want to learn how to sew. Whether it is clothing construction, wardrobe management, care of clothing, fashion, understanding textiles, sewing machine uses or providing up to date information on the technological advances in the sewing industry, the sewing education program could become one of the most popular Extension programs. Two key goals of this proposed program are for people to recognize the importance of sewing and clothing construction and its influence on an individual's life; and to gain the skills required to make or repair clothes.

We propose, Mr. Chairman, that the subcommittee authorize $1.7 million for Fiscal Year 1986 for the Sewing Education Program. The funds could be as follows:

Administration	$100,000
Design and Printing of Resource Materials	900,000
Volunteer Training	700,000
Total	1,700,000

The authorization of these funds would be targeted to training existing Extension leaders and volunteers in sewing education, and not in the creation of new jobs or salaries. Program development decisions on this new Smith-Lever Section 3(D) area could be implemented at the discretion of the U.S. Department of Agriculture with the cooperation of the industry and the Congress.

While sewing education is a popular course for adults and young people, we in the industry have increasingly found that sewing is not being taught regularly in our schools and is being ignored at various state levels in the Vocational Education Consumer and Homemaking Education area. Our association's Teacher Service Division and Education Committee is trying to reverse this trend by providing a communications network with over 40,000 home economics teachers throughout the county and other education-related constituents. However, it is extremely difficult to change the trend of ignoring sewing courses. Soon, a whole generation may be without this important skill.

In summary, the American Home Sewing Association recommends the following specific points to the Subcommittee:

1. "Sewing Education" should be included as a specially targeted Smith-Lever Section 3(D) program within the Fiscal Year 1986 Agriculture Authorization legislation;
2. Language should be included in the House of Agriculture Committee Report which supports the program (similar to that contained in H. Rep. 94-1224, p. 45, for the Fiscal Year 1977 Agriculture Appropriations, which created the urban gardening program); and
3. An authorization for Fiscal Year 1986 appropriation should be made for $1.7 million for the Sewing Education program.

NATIONAL 4-H CLOTHING AWARDS PROGRAM 1983

ALABAMA	23810
ALASKA	343
ARIZONA	1284
ARKANSAS	3234
CALIFORNIA	7619
COLORADO	4994
CONNECTICUT	744
DELAWARE	239
FLORIDA	7068
GEORGIA	13169
HAWAII	1227
IDAHO	5003
ILLINOIS	12929
INDIANA	11813
IOWA	20601
KANSAS	8962
KENTUCKY	16527
LOUISIANA	19079
MAINE	1100
MARYLAND	2969
MASSACHUSETTS	1356
MICHIGAN	15716
MINNESOTA	14053
MISSISSIPPI	6180
MISSOURI	5403
MONTANA	5865
NEBRASKA	11722
NEVADA	1958
NEW HAMPSHIRE	1499
NEW JERSEY	2386
NEW MEXICO	1381
NEW YORK	27641
NORTH CAROLINA	5499
NORTH DAKOTA	5418
OHIO	18697
OKLAHOMA	14021
OREGON	5076
PENNSYLVANIA	14913
RHODE ISLAND	201
SOUTH CAROLINA	4804
SOUTH DAKOTA	5059
TENNESSEE	21873
TEXAS	11255
UTAH	5028
VERMONT	880
VIRGINIA	5600
WASHINGTON	5642
WEST VIRGINIA	3813
WISCONSIN	15451
WYOMING	2257
PUERTO RICO	3006
DISTRICT OF COLUMBIA	1507
VIRGIN ISLANDS	19
GUAM	125
TOTAL	408,018

NATIONAL 4-H FASHION REVUE AWARDS PROGRAM 1983

ALABAMA	10238
ALASKA	148
ARIZONA	552
ARKANSAS	1391
CALIFORNIA	3276
COLORADO	2147
CONNECTICUT	320
DELAWARE	103
FLORIDA	3039
GEORGIA	5663
HAWAII	528
IDAHO	2151
ILLINOIS	5560
INDIANA	5080
IOWA	8858
KANSAS	3854
KENTUCKY	7107
LOUISIANA	8204
MAINE	473
MARYLAND	1277
MASSACHUSETTS	583
MICHIGAN	6758
MINNESOTA	6043
MISSISSIPPI	2657
MISSOURI	2323
MONTANA	2522
NEBRASKA	5041
NEVADA	842
NEW HAMPSHIRE	645
NEW JERSEY	1026
NEW MEXICO	594
NEW YORK	11886
NORTH CAROLINA	2365
NORTH DAKOTA	2330
OHIO	8040
OKLAHOMA	6023
OREGON	2183
PENNSYLVANIA	6413
RHODE ISLAND	86
SOUTH CAROLINA	2066
SOUTH DAKOTA	2175
TENNESSEE	9405
TEXAS	4840
UTAH	2162
VERMONT	378
VIRGINIA	2408
WASHINGTON	2426
WEST VIRGINIA	1640
WISCONSIN	6644
WYOMING	971
PUERTO RICO	1293
DISTRICT OF COLUMBIA	648
VIRGIN ISLANDS	8
GUAM	54
TOTAL	175,453

SELECTED 1984 USDA-NATIONAL ACCOMPLISHMENT REPORTING SYSTEM REPORTS ON EXTENSION SERVICE STATE TEXTILE AD CLOTHING PROJECTS

State [1]	Type of extension course	Participants in courses	Estimated net value of products
Kentucky	Clothing Construction and Repair	39,098	$2,688,000
Alabama	Clothing Construction	2,304	101,049
Connecticut	Clothing Workshops	112	6,025
Florida	Clothing Construction	8,858	46,7/3
Georgia	Repair and Alteration	389	3,564
Idaho	Clothing Construction	3,700	80,000
Maryland	Clothing Construction/Sewing Machine Maintenance	4,417	58,835
Mississsippi	Clothing Construction	350	19,000
Missouri	Clothing and Textiles	15,269	1,267,327
Montana	Clothing Construction/Recycling	891	60,700
Nebraska	Sewing Machine USP and Care	167	5,000
New Jersey	Clothing Construction/Care	1,570	16,434
North Carolina	Clothing Construction	4,473	77,723
Oklahoma	Clothing Construction and Repair	325	32,297
Puerto Rico	Sewing Techniques	16,498	1,490,000
South Carolina	Clothing Construction and Repair	7,018	90,106
South Dakota	Wardrobe Management and Clothing Construction	5,339	255,631
Tennessee	Clothing and Textile	37,757	251,899
Utah	Clothing Construction	73	5,000
Virginia	Clothing and Textiles	14,837	177,444
	Total	163,445	6,732,807

[1] 20 States.

Note—If all 50 states had the same type of Extension courses and number of participants, the estimated net value of products made would be $16,832,000.

If all 50 states and their participants were able to sell their sewing products made at home the total tax revenue generated for the federal government would equal around $3,366,400.

Source for 20 State NARS reports, U.S.D.A., Extension Service.

STATEMENT OF ROBROY D. FISHER, CHAIRMAN, COTTON INDUSTRY/GOVERNMENT RESEARCH COMMITTEE, NATIONAL COTTON COUNCIL OF AMERICA

I am Robroy Fisher, cotton farmer from Greenville, Mississsippi and chairman of the Cotton Industry/Government Research Committee of the National Cotton Council on whose behalf I appear. The council is the central organization of the U.S. cotton industry, representing growers, ginners, warehousemen, cottonseed crushers, merchants, cooperatives and textile manufacturers from the Carolinas to California.

INTRODUCTION

We vigorously support a balanced reduction in the federal deficit. However, we recognize agriculture cannot accomplish this monumental task alone, or even a major portion of it. But we are willing to do our part because reducing the federal deficit is the surest way to bring the dollar into a more favorable relationship with other currencies, and make us more competitive in world markets.

However, another pressing issue interrelated with the deficit and improved competitiveness is public investment in research and extension. We feel that maintaining adequate research and extension budgets for agriculture is a competitive necessity and represents a sound national investment that will pay dividends far in excess of its cost.

Competition intense and global

U.S. agriculture is in a tough, all-out competitive struggle for markets at home and abroad. Research and application of new technology through extension efforts are essential to reducing production costs and losses in agriculture and to making U.S. products more competitive. U.S. producers of virtually all agricultural commodities must now compete with foreign production, which in many cases has been forced into the market through export subsidies or special actions of central governments. Other producers must vie with synthetic producers as well.

In recent years, much of U.S. agriculture has suffered market losses, especially in export markets. Despite the fact that U.S. farm prices were generally lower, market share losses to foreign producers still occurred. The decline in U.S. competitiveness in agricultural export markets seriously threatens the viability not only of U.S. agriculture but of the U.S. economy.

Grower stress increasing

While some recovery of exports apparently occurred in 1984, agricultural prices for the most part are still depressed to levels below the cost of production for a majority of producers. This is reflected in agriculture's sharply higher debt-to-equity ratio which is now more than 27 percent compared with less than 21 percent in the last half of the 1970's.

As growers strive to meet their competition, they face a number of relatively new problems, many of which can be reduced or solved by agricultural research to reduce cost of production and improve product quality.

Resources diminishing and productivity is stalled

Water supplies, for instance, have diminished and cities are demanding more of the available ground and surface water. Excessive erosion has undermined soil productivity in many areas. Productivity increases—the only route open to the farmer for holding down costs—are becoming far more difficult to achieve. Fossil fuels and their derivatives—heavily used in agriculture—will ultimately become more scarce and expensive. Agricultural chemicals are coming under more and more regulations. The cost of money is high, and restrictions on credit are growing.

Yields appear to be flat for cotton and rice, and leveling off for corn, soybeans and wheat.

Pest problems are increasing

Weeds, insects, diseases, nematodes and other pests in the U.S. cause losses in agricultural production of crops, livestock, forests and aquatic resources estimated at 30 percent of their sale value. These losses now total $35 billion each year. Agricultural producers spend about $10 billion each year to control pests. The development of existing and newly-emerging pests that are difficult to control and the effects of chemical control technology on environmental quality are recognized as challenges which can be met through research.

Productivity research is key

All competition turns on three basic factors: price, quality and marketing. All three of these can best be attacked directly or indirectly through research. Unfortunately, in recent years there has been a lack of growth in real expenditures on public agricultural research, particularly at the national level.

When spending by USDA's Agricultural Research Service and Cooperative State Research Service from 1977 through 1984 is deflated by an index of dollars per scientist year, the spending level for each of the last four years is lower than 1977. A similar lag in funding for extension adds to the problem.

The lag in public research support since the mid-1960's is directly correlated with the more recent slowing of agricultural productivity. An even slower rate of growth is implied for the next century.

Past research was profitable

U.S. agricultural research and extension have produced remarkable results, and can do so again. They have enabled American agriculture to be successful to a degree never before achieved by any other country, assuring U.S. consumers abundant supplies of high quality food and fiber at reasonable prices. Americans spend only 16 percent of their income on food. Contrast that with the percentage of income spent on food in the following countries:

	Percent
United Kingdom	20
Soviet Union	35
Korea	43
India	60

Research and education played a large part in American agriculture's rise to become the world's largest commercial industry, with assets exceeding one trillion dollars. Its contributions to the nation's economy are enormous, with its production and infrastructure accounting for one-fifth of the Gross National Product, one-fifth of the nation's jobs, and one-fifth of merchandise exports.

Research and extension serves national interest

Several studies document the high returns to society from the public investment in agricultural research.

Dr. B. R. Eddleman of Mississsippi State University, along with co-authors from three other universities, found that the expected annual rate of return on crop and livestock research investments ranges from 17 percent to 110 percent.

Dr. H. E. White and associates at Virginia Polytechnic Institute calculated that one year's reduction of $100 million in the federal budget for agricultural research would be expected to cost consumers more than a hundred times that much in 20 years.

Dr. V. W. Ruttan of The University of Minnesota showed that the internal rate of return for agricultural R&D investments runs three and one-half to five times that of most public investments. The rapid transfer of research information to the farm is essential to enjoying the benefits of new technology. The Cooperative Extension Service mission of moving new findings to the farm is essential in meeting the competition.

Future depends on research

There are two widely held but opposing views about the long-term relationship of world food, forest products, and fiber demand and supply.

One view is that future needs will outstrip farmers' ability to produce.

The other is that supply, for the foreseeable future, has surpassed economic demand.

In either case, the necessity of expanding agricultural research is underscored.

If the first theory is correct, the obvious way to meet future food and fiber needs is to achieve more production with fewer inputs. But this simply will not happen in the absence of a adequate research effort.

If the second view is correct, U.S. agriculture will require stepped-up research and extension to maintain its competitive edge in world markets. Failure to do so inevitably will cause the decline of U.S. agriculture—the sector which accounts for a fifth of the nation's GNP, its employment and its exports—and therefore the decline of the U.S. economy.

Balance of research programs

Ongoing successful programs in agricultural research must be revised and expanded with support funds, apportioned rationally, to insure the long-time survival of American agriculture. Carefully selected and fully supported basic research programs will provide the knowledge and technology basis for applied research. Adequate bridges, in the form of coordinated production-oriented research, must be continued to translate and transform basic discoveries into practical uses for the agricultural producer. A strong case can be built for both types of research, and each contributes mutually to the success of a sound agricultural industry. In both cases, ARS, state experiment stations and industry can complement the efforts of each other by planning and working together as a triumvirate to build a stronger agricultural research program.

Current priority too low

The number of U.S. agricultural scientists has remained static for two decades while the total in Europe, Russia, China, Japan, Canada, India and Brazil has climbed substantially. Funding authorization for agricultural research and extension as proposed in this act is far short of meeting the needs for a healthy future for agriculture. Agricultural Research Service authorizations are limited to a total 4-year increase of only 1½ percent over the 1985 budget appropriations—less than 2 percent increase per year. The Cooperative State Research Service authorization limits the 4-year increases to 1¼ percent over the 1985 level and Extension Service authorization limitation of $281 million in 1989 represents a reduction of 18 percent from 1985.

Considering even moderate inflation rates, these authorization limitations for research and extension reflect severe cuts in programs that are needed if U.S. agriculture is to become competitive once again.

RECOMMENDATION

It is critical, therefore, that agricultural research and extension now be funded more in line with needs to assure that we remain the most efficient country in producing food, forest products and fiber for U.S. consumers and the growing markets of the world.

We therefore recommend the authorization of a real growth in funding for agricultural research and extension of at least 2 percent annually above inflation rates.

APRIL 18 HEARING—AGRIBUSINESS ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, as we develop the 1985 farm bill, it is important to recognize that this legislation will affect the economic well-being not only of farmers but also agribusinesses, rural citizens, and—to a large extent—every American.

The focus of today's hearing is agribusiness. Modern agricultural production requires an extensive array of support from nonfarm industries. Among other inputs, farmers purchase machinery, fertilizer, and fuel.

Like farmers, many agribusinesses are experiencing severe financial difficulty due to the depression in the agricultural economy.

For example, the U.S. farm machinery industry faces unprecedented financial problems as demand for its products has fallen for five consecutive years. Economic conditions have taken many farmers totally out of the market for new farm machinery.

In Nebraska, the agricultural depression is affecting the entire economy. School districts are being deprived of property tax revenues, banks and production credit associations have failed because of uncollectable farm loans, and rural utilities are concerned about the ability of farmers to pay their utility bills.

The 1985 farm bill provides an opportunity to address the problems in the agricultural economy.

One of the primary objectives of the farm bill I plan to introduce is to increase farm income. To accomplish that objective as efficiently as possible, I plan to propose mandatory production control programs for wheat and feed grains.

At the same time—to make U.S. agricultural products competitive in world markets—we will need an aggressive export program to enable American farmers to compete with the heavily subsidized exports of other countries. A workable export program—by using credit and export PIK Programs—would effectively provide a tiered system of prices; one level for domestic consumers and another level for export markets.

With such a system, the U.S. will be able to establish export incentives equivalent to those of our competitors.

The actions I have briefly outlined would significantly strengthen the agricultural economy. Improvements in the agricultural economy are desperately needed by farmers and agribusinesses. In addition, a healthy agricultural economy will provide the essential foundation for our Nation's long-term prosperity.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Today, Mr. Sherwin Gardner of the Grocery Manufacturers of America will testify that Congress should consider legislation to establish a clear policy of national uniformity in the application of pesticide residue safety decisions made by the Environmental Protection Agency. I believe that he raises a legitimate concern meriting the attention of this Committee.

Mr. Chairman, EPA is charged by law to make safety decisions involving the use of pesticides on raw agricultural commodities and food products. FDA enforces those decisions. Under current law states are free to set tolerance standards, if EPA has not done so. In instances where EPA has established tolerance levels, states are required to enforce them as minimum standards, but retain the discretionary authority to adopt more stringent standards.

This freedom of states to act independently of the federal government created serious problems during the recent experiences with ethylene dibromide (EDB). Specifically, in December 1983, Florida banned all food products containing any measurable amounts of EDB. Two months later, EPA adopted federal safety standards for use of EDB in food products. Shortly thereafter, several states adopted more stringent standards resulting in four different requirements for EDB residues: One is the federal regulation; Massachusetts and Maine have a second set of regulations; New York and New Jersey have a different standard; and California has a fourth standard.

The lack of national uniformity is of serious concern to our nation's food producers, distributors, and manufacturers. Forty-seven of the 50 states produce principal crops which are transported to more than 21,000 domestic food manufacturers and processors, that, in turn, market this food in hundreds of billions of package units nationwide.

At the present time, there are 300 legally registered food use chemicals with 6,000 chemical tolerances for food, yet no requirement that the States comply with them. Consequently, food producers, processors and manufacturers are supportive of a federal standard for national uniformity. It is my understanding that my legislative proposal regarding national uniformity would not address questions involving the registration of pesticides or issues concerning the application of them.

The goal of this legislation has been endorsed by numerous food and agricultural groups in California, including the: California Chamber of Commerce, California Citrus Mutual, California Farm Bureau Federation, California Grain and Feed Association, California League of Food Processors, California State Board of Food and Agriculture, California State Grange, and the Western Growers Association.

In addition, I understand that similar agricultural organizations in numerous other states have endorsed the uniformity concept, as have a variety of national groups. A detailed list of supportive associations is attached to Mr. Gardner's testimony.

I commend GMA for their testimony, reiterate my support for the concepts enunciated therein and look forward to working with my colleagues on the Committee to address this concern.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, agribusiness is vital to all sectors of the economy in my home state of Illinios, as well as the nation. I am pleased that the Committee has singled out the agribusiness sector for this hearing.

It is my hope that this 1985 Farm Bill, with the help of many organizations, can benefit the farmer, agribusinesses, and the consumer.

I look forward to the testimony presented this morning.

Thank you, Mr. Chairman.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM OKLAHOMA

Mr. Chairman, I commend the Senate Agriculture Committee for holding this special hearing for agribusiness. As you know, agricultural policy in the United States no longer affects just farmers. It can have a direct impact on communities throughout the nation. Certainly, farm programs impact businesses which provide farm inputs such as equipment dealers, fertilizer producers, seed retailers and others. These businesses have been affected by programs over which they have had little control. That is why they are speaking up today, taking part in farm policy making.

Mr. Chairman, I am pleased to introduce to you and other members of the committee one of my constituents, Mr. Ron Johnson, of Tulsa. Representing the Fertilizer Institute, Ron is chairman of their agricultural policy committee. It seems the fertilizer industry as a whole lost about $2 billion due to 1983's payment-in-kind program.

Ron is executive vice-president of the Agrico Chemical Company, a subsidiary of The Williams Company of Tulsa. He's been with the company since 1950, and holds many other distinguished positions within the agribusiness community.

Agrico manufactures fertilizers, which as you know, make a significant contribution to the productivity and efficiency of the American farmer. Along with the industry, Agrico suffered substantial losses as a result of the PIK program.

I mentioned before how farm policy affects others besides our nation's farmers. Along similar lines, Ron realizes that in order for our nation's agribusinesses to operate profitably, the farmer must be making a profit.

On behalf of the Fertilizer Institute and Oklahoma farm suppliers, it is my pleasure to present to the committee Mr. Ron Johnson.

JOINT STATEMENT OF RON JOHNSON, AGRICO CHEMICAL CO., AND G.W. GARRETT, ALLIANCE AGRONOMICS, ON BEHALF OF THE FERTILIZER INSTITUTE

The Fertilizer Institute* is grateful to the Senate Agriculture Committee for giving agribusiness the opportunity to present its views on the 1985 agriculture legislation before the Senate Agriculture Committee. Appearing on behalf of The Fertilizer Institute today are Ron Johnson, executive vice president, Agrico Chemical Company, Tulsa, Oklahoma, and G. W. "Waddy" Garrett, president, Alliance Agronomics, Mechanicsville, Virginia. These members represent major divisions of the fertilizer industry—raw material producers and farm retailers—and both are members of TFI's Agricultural Policy Committee.

Agrico Chemical Company is an integrated mining and manufacturing company with nearly one billion dollars in assets and an equal amount of annual sales revenue each year. Agrico operates three phosphate rock mines, two phosphoric acid plants, and four anhydrous ammonia plants in the U.S. and enjoy 12% to 15% of the U.S. fertilizer market annually. Agrico has 91 terminals and downstream warehouses strategically located to supply about 1500 independent merchants in virtually every agricultural community in the United States. Agrico operates as a wholly-owned subsidiary of The Williams Companies headquartered in Tulsa, Oklahoma. Williams is a public company traded on the NYSE and had 21000 common stockholders of record at the end of 1984.

Alliance Agronomics is an outgrowth of Alliance Fertilizer Company which dates back to 1890. The family-owned business operates 11 fertilizer retail facilities in Virginia and North Carolina, serving over 1000 farm customers.

AGRIBUSINESS INVOLVEMENT IN THE FARM BILL

It isn't just by coincidence that you've asked for agribusiness views on the '85 farm bill. Clearly, recent experiences have demonstrated the far-reaching impact of our nation's past agricultural policies—an impact that will continue to reverberate for years to come.

The fertilizer industry is a classic example.

This industry has always operated on the premise that, to be profitable, the farmer must be making a profit. Sales have always been directly related to the state of the farm economy. And, in the 100-year history of The Fertilizer Institute, the industry never became involved in farm bill debates—because industry was accustomed to factoring in the four-year farm bill plan and riding out the cyclical changes in the agricultural economy.

But the 1983 PIK program changed all that. A company can't adjust in three months to a drop of 80 million acres from its planned fertilizer sales. Our industry alone paid dearly for PIK's quick fix—to the tune of $2 billion. That translates to lost jobs, lost businesses, and shock waves that have never before been encountered by our industry.

The experience was, in a grim sense, educational. It dramatically illustrated three dangerous failings in our government's approach:

(1) Our nation has no long-term agricultural policy;

(2) Our approach to grain surplus management is misguided and self-defeating; and

(3) Development of agricultural policy seems to have focused only on the 3 percent of Americans directly engaged in agricultural production, unconcerned with the 18 percent involved in the total food and fiber section who are dependent upon the efficiency and productivity of the American farmer.

Agribusiness cannot survive more short-term fixes. We cannot afford passage of just another "farm bill." The whole industry of American agriculture needs and expects, a comprehensive national agricultural policy which can serve our nation well into the future without the need for "quick fixes."

One out of every five workers in our total economy is employed in some phase of this vast industry—the nation's single largest exporter. The $1 trillion in agricultural assets are more than the assets of our steel, automobile, and housing industries combined. Thus, Congressional action on the 1985 agricultural legislation must be tempered by its impact not only on the American farmer, but on our entire economy.

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*TFI is a voluntary, non-profit association, whose members represent approximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes: producers, manufacturers, traders, retailer dealers and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials and are a vital link in the nation's agriculture system.

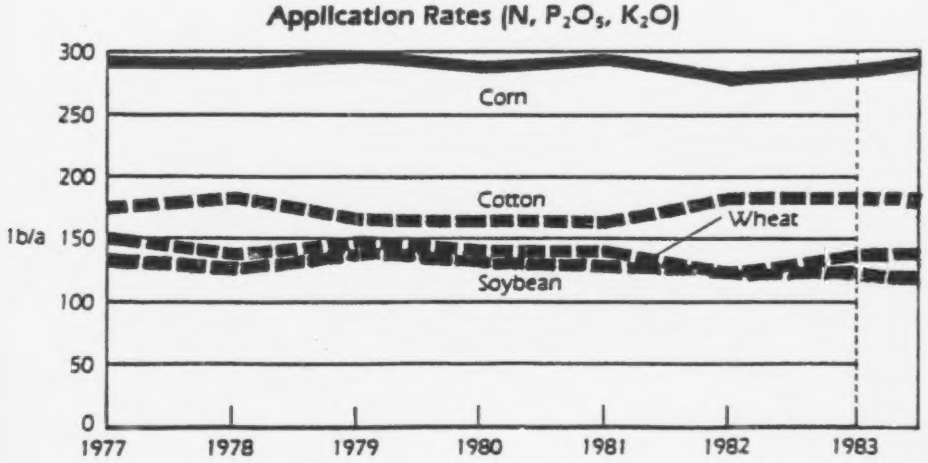
A central factor, we believe, in the continued economic recession occurring in American agriculture is the devastating loss in the international market for U.S. agricultural products. The result is a decline in U.S. agricultural exports—exports that determine the vitality of the U.S. economy. Thus, a strong export promotion and trade enhancement title must be a top priority in the 1985 agriculture bill.

FERTILIZER INDUSTRY CONTRIBUTION TO THE U.S. FARMER

Fertilizer makes a significant contribution to the efficiency and productivity of the American farmer and thus to the abundance and low cost of food to the consumer. Few inputs—if any—provide the return in crop yields as fertilizer. One ton of nutrients in commercial fertilizer typically increases grain yield by 5 to 10 tons. It is estimated by USDA that 30 to 40 percent of U.S. crop production is directly attributed to fertilizer use.

U.S. farmers typically apply 290 pounds of fertilizer: nitrogen (N), phosphate (P_2O_5), and potash (K_2O) per acre for corn, 160 pounds per acre for cotton, 140 pounds per acre for wheat and 130 pounds per acre for soybeans (Figure 1).

FIGURE 1



(SOURCE: USDA)

The cost of fertilizer to the U.S. farmer is given in Table 1. Typical cost is approximately $200–250 per ton.

TABLE 1

PRICES PAID BY FARMERS
FOR
SELECTED PRODUCTS

(dollars per ton)

	Fertilizer Year																			
	1975		1976		1977		1978		1979		1980		1981		1982		1983		1984	
Product	Sep	Apr	Oct	Apr	Oct	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar
Anhydrous Ammonia	229	265	219	191	182	188	170	177	160	171	199	229	220	243	249	255	230	237	232	275
Nitrogen Solutions (28%N)	137	159	121	109	108	113	112	110	104	106	119	132	128	137	136	140	133	133	131	142
Urea	232	244	203	166	168	169	167	169	168	170	201	221	222	237	246	240	222	214	208	222
Ammonium Nitrate	170	186	156	135	137	141	142	140	135	138	151	165	169	185	192	195	188	185	186	198
18-46-0(DAP)	228	263	216	189	177	180	183	186	186	199	268	297	278	287	259	267	248	249	245	271
Con. Superphosphate	188	214	179	158	146	146	147	151	153	161	220	247	242	248	228	230	212	214	210	229
Muriate of Potash	91	102	94	96	94	96	94	96	99	107	124	135	142	152	153	155	143	143	131	144

NOTE: All years are expressed as fertilizer years, (e.g., for fertilizer year 1978, the calendar months are December 1977 and March 1978).

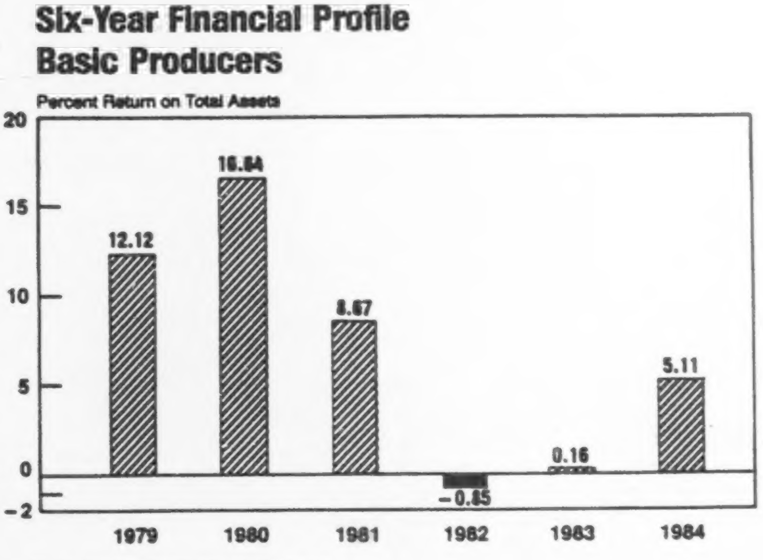
SOURCE: U.S. Department of Agriculture, USDA Agricultural Prices, Crop Reporting Board. Dates are not coincident year to year because of different sampling dates by USDA.

ECONOMIC CONDITION OF FERTILIZER INDUSTRY

The U.S. fertilizer industry is a $10 billion industry—$8 billion domestic and $2 billion export.

A six-year financial profile for basic raw material producers is given in Figure 2. In 1982, the entire industry had a negative average return on total assets. In 1983, the average return on total assets was 0.16 percent.

FIGURE 2



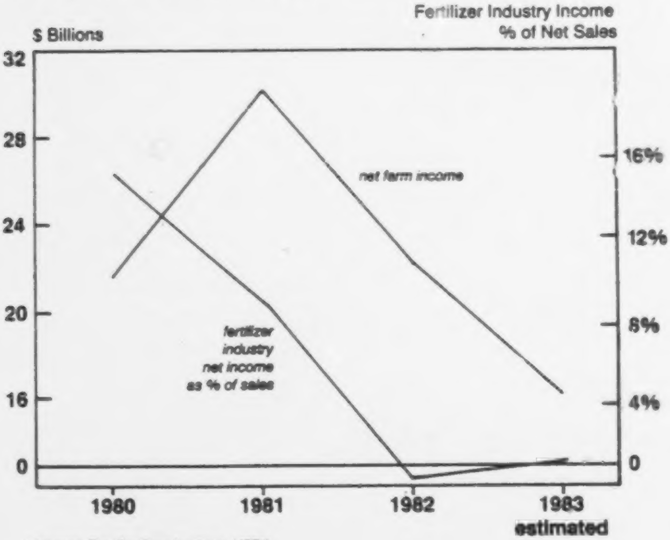
Source: *The Fertilizer Institute, Financial Facts*

The fertilizer industry net income is directly related to U.S. net farm income (Figure 3). As net farm income decreases, so does net fertilizer income.

FIGURE 3

U.S. Net Farm Income 1980–1983

Compared to fertilizer industry net income as % of net sales*



*Source: *The Fertilizer Institute, USDA*

AGRICULTURAL EXPORTS ARE KEY TO U.S. ECONOMY

The Fertilizer Institute believes that the decline in U.S. agricultural exports—decline in the U.S. share of international markets—is a central factor in the continued economic recession occurring in American agriculture. According to the USDA:

Forty-six percent—nearly half—of America's production of feed grains, wheat and soybeans are produced in search of international markets.

The value of U.S. agricultural exports has dropped from $43.8 billion in 1981 to an estimated value in 1985 of $34.5 billion.

In 1981, exports of crops alone accounted for 53 percent of crop receipts for American farmers.

And, it's not just for agriculture that farm exports are important. Agricultural exports also make a significant contribution to the total U.S. economy. S.C. Schmidt, Department of Agricultural Economics of the University of Illinois, reports that:

Every dollar received from agricultural exports creates another $1.05 worth of economic output immediately in the U.S. Thus, $38 billion of agricultural exports in 1984 provided another $40 billion value to the economy as a whole—a total immediate impact of $78 billion. I know of no other business activity in the U.S. where the economy realizes such a handsome return on its investments.

Agricultural exports have a long-term multiplier effect of 3.5 to 4. Thus 1984's $38 billion worth of agricultural exports generated between $133 billion and $152 billion to the gross national product over the longer term.

Each billion dollars' worth of agricultural exports create 30,000 jobs in agriculture and in the related agribusiness and food sectors. Based, again, on the multiplier effect on GNP, 60,000 jobs in total U.S. employment are created. Thus, the $38 billion of agricultural exports in FY '84 sustained approximately 3.4 million jobs.

EXPORT DECLINE IS DEVASTATING AGRICULTURE

The volume of U.S. exports and the U.S.'s percentage of export markets has declined (Table 2). Compared with peak year percentages, wheat export tonnage has declined 24 percent, feed grains 28 percent, soybeans 26 percent and cotton 36 percent. All of these commodities have also lost about 10 percent in market share—except for cotton which is down 6 percentage points.

TABLE 2

Export Trends: World and U.S.
Wheat, Feedgrains, Soybeans, and Cotton
(Million Metric Tons)

Wheat	World Total	U.S. Total	U.S. Share
1978/79	72.0	32.5	45.1%
1979/80	86.0	37.4	43.5
1980/81	94.1	41.2	43.8
1981/82	101.3	48.2	47.6
1982/83	98.5	41.1	41.7
1983/84	103.1	38.9	37.7
Feedgrains			
1978/79	92.9	60.2	64.8
1979/80	99.5	71.4	71.8
1980/81	108.8	69.5	63.9
1981/82	97.8	58.6	59.9
1982/83	91.3	54.0	59.1
1983/84	90.9	55.8	61.4
Soybeans			
1979/80	28.4	23.8	83.8
1980/81	25.4	19.7	77.6
1981/82	29.0	25.3	87.2
1982/83	28.8	24.6	85.4
1983/84	26.1	20.2	77.4
Cotton			
1978/79	19.7	6.2	31.5
1979/80	23.1	9.2	39.8
1980/81	18.7	5.9	31.6
1981/82	20.2	6.6	32.7
1982/83	18.5	5.2	28.1
1983/84	19.4	6.8	35.1

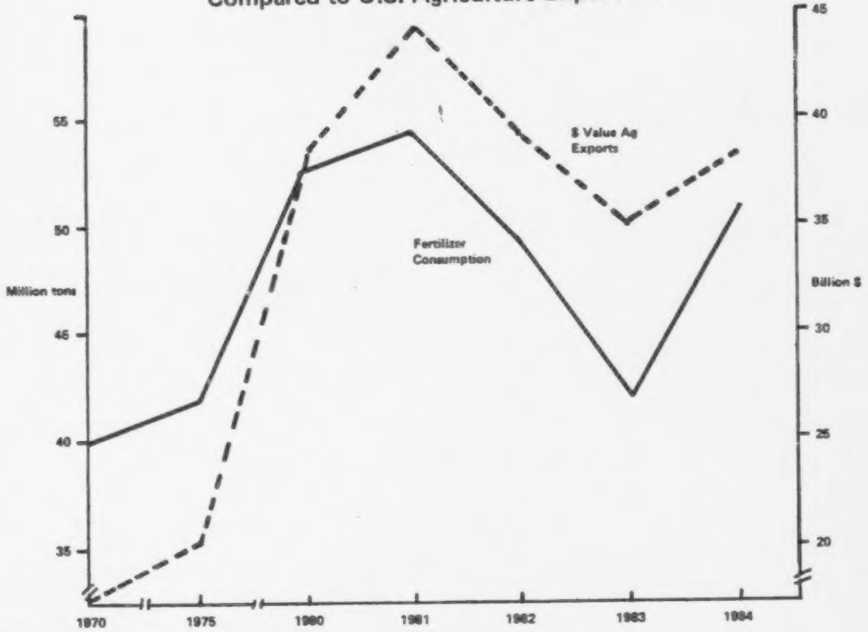
Source: USDA

Since export receipts account for nearly 46 percent of total crop receipts, the decline in exports have been devastating to the U.S. farmer and the economy.

In the fertilizer industry, for example, consumption has been directly related to the value of U.S. agricultural exports (Figure 4).

FIGURE 4

U.S. Fertilizer Consumption
Compared to U.S. Agriculture Export Value



	1970	1975	1980	1981	1982	1983	1984
Fertilizer Consumption	40	42	53	54	49	42	50
$ Value Ag Exports	7	23	40	44	39	35	38

Source: USDA

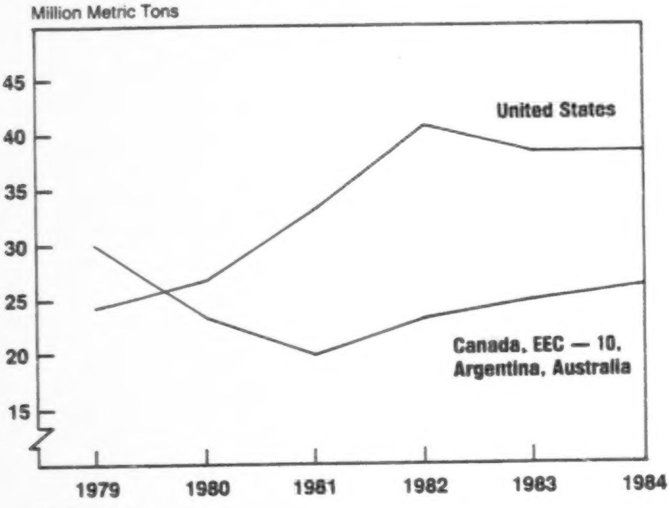
What all this means is that not just the farmer is in trouble—all of agriculture is in trouble as the result of agricultural export decline. Farm equipment manufacturers, the seed industry, the fertilizer, trade and manufacturing industry, and merchants in agricultural communities across our nation are being challenged like never before.

INVENTORY CONTROL THROUGH EXPORT—NOT ACREAGE REDUCTION

We believe that the best means of controlling the American farmer's inventory levels is through export promotion. This is an essential, positive government role. The U.S. cannot afford to continue carrying the world's inventory for agricultural commodities. The U.S. inventory level for wheat as compared to U.S. competitors is provided in Figure 5. U.S. inventory levels for wheat are almost twice the level of our major competitors combined.

FIGURE 5

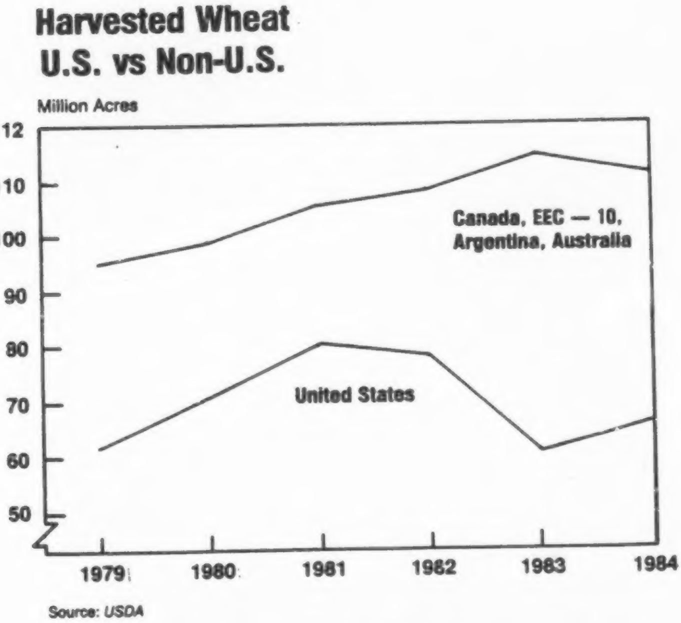
Wheat Inventory Levels



Source: *USDA*

When U.S. commodity inventory levels reach very high levels, political pressure builds for programs such as PIK. However, as the U.S. took 80 million acres out of production to pull down its inventories, U.S. competitors increased their production (Figure 6). The majority of that production went directly into the export market, competing with U.S. products. Government's role in this instance may have been called for, but the result was perhaps more damaging than if government had done nothing at all.

FIGURE 6



Source: USDA

TRADE AND EXPORT TITLE MUST BE TOP PRIORITY

Considering the enormous positive effect of agricultural exports on American farmers and the U.S. economy, a strong export promotion and trade enhancement commitment must be a top priority in the 1985 agriculture bill. Congress must provide the tools to expand exports and the necessary spending authority to make them effective. Increasingly, foreign governments are the "competitors" to the U.S. farmer. Hence, the role of the U.S. government must be more active in countering these "competitive forces" in international markets.

We need to support current export initiatives of the Commodity Credit Corporation (CCC), such as:

GSM-102—Guaranteed loans that do not represent a cost to the government. With the exception of Poland, there have been no defaults on GSM-102.

GSM-105—Loans for up to three years to foreign entities at rates slightly above the cost of government borrowing.

GSM-301—Designed to provide intermediate-term credit (4 to 10 years) to buy U.S. farm commodities for (a) financing construction of infrastructure facilities, (b) loans for breeding stock, (c) meeting credit competition, (d) building reserves by importing countries.

Blended credit—This program has been used successfully to increase U.S. ag exports by combining interest-free government credit under the Commodity Credit Corporation (CCC) GSM-5 program, with government-guaranteed private credit under CCC's GSM-102 program. The resulting lower interest rate stimulates exports by making the financing package very attractive to overseas buyers of U.S. agricultural goods.

We also need to consider new initiative ideals such as:

Volume bonus—The objective of this plan would be to avoid the kind of grain surplus problems which fostered the PIK program by capping the amount of grain in the farmer-held reserve. When the "capped" level is reached, America's loyal contract customers would be awarded additional or bonus grain as a reward for contracting to purchase certain quantities of grain. Supply would be held in check . . . customers would have new faith in America as a reliable supplier and business partner . . . and America's farmers would not be penalized for their amazing level of efficiency and productivity.

CARGO PREFERENCE MUST BE ELIMINATED

Before the U.S. can even begin to implement new export promotion programs, Congress must remove the cargo preference burden from agriculture which serves as a subsidy for the U.S. merchant marine fleet. As you know, current law requires that 50 percent of government-backed agricultural shipments must move in U.S. ships.

The additional shipping costs associated with U.S. flag ships required by cargo preference laws discourage any innovative ideas to help U.S. agriculture compete with either subsidized competitors or the high value of the U.S. dollar in world markets.

Further, money spent to subsidize the U.S. merchant marine is money not spent to promote U.S. exports. The recent ruling by the U.S. District Court which applies cargo preference requirements to USDA blended credit programs is really just another form of embargo on the expansion of farm product exports.

We urge Congress to act swiftly on legislation to exempt USDA market enhancement programs, administered by the Commodity Credit Corporation, from cargo preference laws.

SUMMARY

To summarize: The fertilizer industry supports a strong, demand-oriented agricultural export market expansion program. We urge intensified efforts to enhance the opportunity for improved farm income, including:

Creation of programs to improve the competitiveness of U.S. farmers in the world market and to overcome existing unfair trade practices of other nations;

Establishment of a firm U.S. image as a reliable supplier by guaranteeing existing and future grain agreements against embargoes;

Expansion of funds for export credit guarantees to developing nations, and provision for an expansion of food donation programs and famine relief;

Provision for bonus agricultural commodities at no cost to foreign buyers who contract for specified quantities of current and future grain needs;

Passage of congressionally-mandated agricultural trade impact statement to apply to all legislation or government actions which could affect agricultural exports; and

Exemption of export credit expansion programs from cargo preference laws.

Thank you for the opportunity to share our industry's agricultural policy views. We are committed to achieving positive results in our policy efforts, primarily because it will prove too costly for all Americans if we merely accept the status quo at this critical juncture in agriculture.

STATEMENT OF WILLIAM S. ARMFIELD, 1985 PRESIDENT, NATIONAL FERTILIZER SOLUTIONS ASSOCIATION

Mr. Chairman, I am Bill Armfield, 1985 President of the National Fertilizer Solutions Association (NFSA)—a Peoria, Illinois based trade Association representing more than 1,300 member firms. Over three-quarters of our members are involved in the retail sales of fertilizers and/or pesticides to farmer customers. These small, independent businessmen—of which I am one—do not directly receive payments from current farm programs—but the impact of these programs is very closely tied to our sales experience. Therefore, we strongly recommend that this legislation be known as the 1985 Farm/Agriculture Bill—to fully and publicly recognize the fact that its impact ripples well beyond just farmers.

Central to our position statement on this legislation is the recommendation that the United States turn away from policies that have left America in the "residual food supplier to the world" role. Instead, we suggest an aggressive shift to selling our production potential in international markets and allowing the productivity of our agriculture to prove itself. Important and delicate transition steps need to be pursued, however, to reach a working, market-oriented 1985 Farm/Agriculture Bill functioning in the long term.

Huge federal deficits and resulting high interest rates have played a primary role in keeping fertilizer retailers and our farmer customers under stress caused by scarce and expensive operating funds. Agriculture is in the midst of a credit crisis. At the same time, the American consumer contributes less of his take home pay for food than consumers in other countries. Another problem area for agriculture has been the impact of Commodity Credit Corporation versus non-recourse loans maintaining a predictable floor under world market prices. This predictability is enhanced by government and farmer-owned reserves that soak up excessive supplies rather than encouraging their consumption. United States supply management programs intended as a remedy have reduced U.S. farm output while international competitors rush in to fill the gap. These opportunities handed our competitors have been compounded by embargoes during both Republican and Democratic administrations.

What has been the result of these policies? As competitors benefit from our policies, farm program costs have risen while prices, income and land use stagnate simultaneously. The NFSA feels it is time to recapture the magic of the marketplace. Remember that farm income is a function of price times quantity. U.S. agriculture is a volume-geared industry and we need to pump up our consumption volume via the export opportunities in the world marketplace. We suggest that you consider programs that will enhance our world market presence (market-orienting loan rates, creating improved export credit programs) separately from programs that will directly enhance farm income (target price deficiency payments, for instance). Once a tentative decision is reached on these separate program areas they can be analyzed from an overall farm economy/market dynamics point of view to ensure that they move the industry in the same direction.

Following are our 15 specific program recommendations:

The 1985 Farm/Agriculture Bill should reflect a commitment to a long-term growth and profit oriented agriculture policy.

The credit needs of American farmers should be addressed now including a close examination of agricultural production credit from the Farmers Home Administration. Additional consideration should be given to the unique needs of the Farm Credit System and private agricultural bankers.

The NFSA supports a transition to free market policies that exclude any consideration by government of production controls. Any production controls considered by government during a transition period to market-orientation must not duplicate the severe dislocations experienced during the 1983 Payment-In-Kind (PIK) program. At no time should the government remove more than 20 percent of feed gains and 30 percent of wheat from production. The long-term retirement of fragile lands from row crop farming in soil conservation programs guided and/or funded by USDA are, however, very important.

The Federal government should continue to encourage wise use of our soil resources. Conservation tillage technical advancements and promotion are central to this goal.

The NFSA supports careful consideration of a gradual and orderly phase out of support prices. It should be realized, however, that any present or future price deficiency payments are, in our opinion, more closely linked to farm income support than to market dynamics. As such, target prices and loan rates should be analyzed and dealt with on separate plains.

Loan rates should be pegged to a rolling world market average with a given percentage of the money saved (as compared to budge and exposure of the present target price/loan rate system) and earmarked for export market development.

Congress should oppose all efforts to enforce U.S. flag-vessel cargo preference upon U.S. grain shipments.

Congress should expand P.L. 480 to help deal with worldwide famine needs.

The U.S. government must act immediately to obtain more equitable treatment for American grain under the existing GATT Agreement and other international trade relationships.

New agreements with trading partners must grant more equitable treatment to American exports.

The government should make every effort to shift more existing resources to aggressive export market development, both in the short and long term.

The NFSA endorses the volume bonus export enhancement efforts now being examined by Congress.

Export credit guarantees and blended credit programs should be expanded.

Bilateral trade agreements are only useful when generally limited to agreement with centrally planned economies.

Congress should guarantee export contract sanctity to assure the United States remains a reliable supplier.

The economic well-being of farmers is of prime importance to NFSA members. Our members provide production inputs directly to the farmer. Positions endorsed by the NFSA offer a profit and growth oriented approach to agriculture, a positive-minded approach that we believe to be essential to the long term health of this industry. Programs allowing world markets to access our abundant U.S. production are the key to the survival of fertilizer retailers and their farmer customers. The recovery of agricultural export markets lost by previous government embargoes and the strong dollar is an important aspect of this recovery. American farmers should not be called upon to produce crops for export markets that are suddenly and unexpectedly removed by government embargo. Government policy should also recognize actual competition between nations prevents actual "free trade". Instead, we should realistically pursue "fair trade" opportunities for American crops.

Favorable farming conditions must no longer be "bad news" for the American farmer. Good weather, natural resources, technological advances and increased productivity must be returned to positive factor status. The U.S. cannot continue to voluntarily cut its share of world trade but rather should design farm programs based on our proven ability to produce not only for ourselves but a hungry world. The U.S. is the only country with surplus production capacity and an adequate delivery mechanism currently able to meet all the increased world demand. No other country is holding grain off the market once produced. The U.S. must send the correct market signals and stop retreating from competition. This retreat only encourages development by competitors of infrastructures necessary to take a greater market share. A phased-in return to the marketplace is the only policy alternative capable of success.

These policy proposals from the NFSA recognize that action taken by the U.S. determines actions of our competitors, sets world prices, dictates our world market share and determines our ability to grow a profitable U.S. agriculture. We can recapture the magic of the marketplace while offering opportunities rather than hardship to the American farmer. Any proposal to the contrary would spell disaster to fertilizer retailers dependent upon the viability of farmers. Both will benefit from increased production and profitable sales resulting from aggressive market oriented policies.

The agricultural policy suggestions contained in this statement were prepared following review of responses by fertilizer retailers and supporting companies to an association survey on agriculture programs. Members of the Fertilizer Organizations Council of the United States (FOCUS) were also consulted on these positions. FOCUS is composed of state and regional associations working in partnership with the NFSA. The NFSA was prompted to join the agriculture policy debate by the 1983 Payment-In-Kind (PIK) program. As small businesses not receiving support payments from farm programs under consideration in the 1985 Farm/Agriculture Bill, we believe that our consultation from the grassroots on Federal farm policy considerations can help avoid difficulties in the future.

STATEMENT OF HARVEY ALTER, MANAGER, RESOURCES POLICY DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES

I am Harvey Alter, Manager, Resources Policy Department of the Chamber of Commerce of the United States. Accompanying me is Stuart Hardy, Manager, Food and Agriculture Policy. We welcome this opportunity to present the U.S. Chamber's views. The expiration of the 1981 Agriculture and Food Act provides an opportunity to enact needed reforms in commodity stabilization programs.

SUMMARY OF CHAMBER POSITION

The goal of the U.S. Chamber's food and agricultural policy recommendations is to assure farming and ranching businesses greater opportunity for profitability by making commodity programs more responsive to marketplace realities. We suggest six specific reforms. In summary:

1. *Nonrecourse Loans.* Nonrecourse commodity loan programs for wheat, corn, feed grains and rice should be determined by a flexible, market-based formula. Nonrecourse loans provide important marketing and cash-flow benefits and help producers manage risks. However, inflexible loans, set by statute above market clearing levels, have stimulated excess production, undermined competitiveness in international markets and resulted in disruptive acreage reduction programs.

2. *Target Prices.* The target price mechanism for wheat, corn, feed grains, rice and cotton should be phased out, with an alternative system, carefully designed to avoid any interference with market forces, should be established for equitably dealing with temporary problems of low farm income. Deficiency payments have proved extremely expensive; benefits appear to have gone largely to those who need them least; and there is growing evidence that target levels, which were designed to be "market neutral," in fact, have been market disruptive.

3. *Farmer-Owned Reserve.* The Farmer-Owned Reserve (FOR) for wheat, corn and feed grains is both a useful marketing tool and a cost-effective method of assuring adequate supplies in periods of production shortfall. However, the FOR should be limited, simplified, and not used to manipulate prices.

4. *Supply Management.* Because they have not worked well in the past, we oppose future governmental efforts to control production of wheat, corn, feed grains, cotton and rice. Supply management programs have been extremely costly and disruptive for farm suppliers, livestock and dairy producers, post-harvest industries, taxpayers and consumers, and they have been self-defeating in the larger context of a global agricultural economy.

5. *Dairy.* The Secretary of Agriculture's authority to reduce the dairy support level by periodic, 50-cent increments should be continued beyond its expiration date of September 30, 1985. This gradual "ratcheting down" of the support price is the most effective and equitable method of bringing supply into balance with demand.

6. *Export Development.* Needless to say, export efforts should be strengthened and redirected. This could be done by establishing a "ladder" of food aid and export credit programs. At the base of the ladder, Public Law 480 (Food-for-Peace Program) should continue to be utilized fully for the benefit of the poorest nations, and special emphasis should be placed on the statute's importance as a trade enhancement mechanism.

Moving up the ladder from the Food-for-Peace Program, intermediate-term export credits should be utilized by developing countries which have graduated beyond P.L. 480 donations and concessional sales but which cannot meet the more stringent commercial terms of the GSM-102 short-term guarantee program. These middle-rung programs should also assist in the construction of handling, storage and other facilities which enhance a nation's ability to absorb greater volumes of agricultural imports and better feed its people.

At the top of the ladder, short-term credits, programmed on a multi-year basis, would improve export opportunities among the most prosperous developing nations. Congress should also consider the Grace Commission recommendation that credit guarantees under the GSM-102 export credit program be made transferable.

Importing nations should be graduated up the ladder as their ability to meet commercial terms improves. This process might be further strengthened by a new program offering a multi-year line of direct and/or guaranteed credit under terms negotiated with recipient countries. The program would approximate a credit. Any draw on the credit line would carry a specified—perhaps a six-month—maturity. As the six-month loans were repaid, the revolving credit line is restored by the payment amount and again becomes available for further credit purchases. Such a program would provide the recipient country with long-term credit availability and some assurance of dependable supplies.

Food assistance and export market development programs have proven to be a cost-effective means of providing humanitarian relief and expanding foreign markets. These programs should not be used to achieve domestic or international policy goals unrelated to food aid or export market development. In particular, cargo preference restrictions should be eliminated or replaced by other methods which do not inhibit export sales and food assistance. Nor should U.S. programs be used to subsidize the development of processing and other facilities which directly compete with U.S. firms and displace value-added export products.

These recommendations, especially those relating to nonrecourse loans, target prices and the dairy programs, will bring about needed structural adjustments in U.S. agriculture. However, some producers who are now dependent upon price supports and deficiency payments may experience economic difficulty. Temporary programs of assistance may be needed to mitigate economic hardship.

CRITERIA FOR TEMPORARY ECONOMIC HARDSHIP MEASURES

After so many decades of strict farm programs, government now has an obligation to bring about structural reforms as smoothly and orderly as possible. Congress and the Administration should, therefore, consider the development of temporary "safety net" measures to accompany market-responsive reforms in the farm program. In our judgement, such measures should meet four essential and minimum criteria:

1. their cost must be less than the programs they replace;
2. they should be terminated at the end of an appropriate transitional period;
3. they should include means tests or other mechanisms to assure that benefits are directed only to those truly in need; and
4. they should separate income maintenance from price supports.

ADDITIONAL ARGUMENTS FOR REFORM

Our recommendations are elaborated in an appendix to this testimony, "Position Paper on Agricultural Policy and the 1985 Farm Bill." This document was developed by the Chamber's Food and Agricultural Committee and approved by its Board of Directors in November, 1984.

[APPENDIX]

POSITION PAPER ON AGRICULTURE POLICY AND THE 1985 FARM BILL—NOVEMBER 1984

INTRODUCTION

The past five decades have witnessed dramatic changes in agricultural technology, structure and marketing, but Federal farm stabilization programs have undergone relatively less change in this same period. There is ample and growing evidence that these aging farm programs are increasingly ineffective in dealing with the challenges and opportunities of this decade and beyond. Their inadequacies have become more obvious in recent years as their costs to taxpayers have increased (from $6.6 billion in 1981 to $28.3 billion in 1983) with little apparent effect on farm prosperity *(1)*.*

Inflexible commodity price supports, set at higher than market levels, have resulted in inefficient resource allocation and a vast build-up of price depressing surplus stocks. Fragile land has been been brought into production to the detriment of sound resource management. Foreign competitors have been encourage to undercut U.S. prices in world markets *(2)*.

Similarly, efforts to control the volume of production through voluntary controls on planted acreage have had a long history of disappointing results for the obvious reason that such programs encourage farmers to retire their least productive land and farm the remainder intensively. Moreover, other grain producing nations have taken advantage of U.S. acreage reductions to increase their own production while importing nations have viewed U.S. cutbacks with alarm.

U.S. agriculture has become more integrated into the non-farm domestic economy and into world markets. The consequences of farm programs are felt far beyond the farm gate and have ripple effects throughout the 23 percent of the total economy which is farm related. Nevertheless, Congress and recent Administrations continue to develop farm programs on a commodity by commodity basis, with little apparent regard for their effect on the livestock, poultry and dairy sectors, much less on farm supply businesses, post harvest industries, trade competitiveness, and consumers.

Major elements of the federal farm program expire on September 30, 1985. The new Farm Bill provides an opportunity to begin significant structural reforms in the farm program for crop year 1986 and beyond.

WHO BENEFITS?

A recent *Economic Report of the President (3)* calculates that if farm program payments in 1983 were distributed equally among the nation's 2.4 million farmers and ranchers, each farm/ranch would have received about $12,000. However, because program payments are distributed in direct proportion to volume of production, a disproportionate share of benefits goes to the relatively small number of farmers who produce the bulk of supported commodities. For example, in 1982, 78% of all direct federal farm program payments went to a minority (29%) of farmers with annual sales in excess of $40,000 *(4)*.

The official definition of a farm/ranch is any unit of land producing at least $1,000 in gross sales of agricultural products per year. The Congressional Budget Office and USDA's Economic Research Service have recently completed studies *(5)* of the 2.4 million farms/ranches that satisfy this definition in an attempt to categorize farms/ranches by acreage, production volume, and income. The results (see Appendix, Table 1) suggest that more than half (1.4 million) of total U.S. farms/ranches are small units with less than $20,000 in annual gross farm sales. This group earns more than half (60%-80%) of its total income off the farm. Many appear to be truck farmers, hobby farmers or tax shelters with little need for, or interest in, price support programs. On average, this group has a negative net farm income, if the statistics are credible (see Appendix, Table 1).

A second category consists of about 670,000 farms/ranches with gross farm sales in the $20,000 to $100,000 range. This group tends to be the mid-sized "family farmers" who are full time farmers and earn less off farm income than smaller scale farmers. The mid-sized farmers account for more than 25% of the nation's farms/ranches, but they earn only 10% of net farm income (see Appendix, Table 1).

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*Notes and references are at the end of the paper.

Finally, the third category of farms/ranches is made up of about 300,000 units with gross farm sales in excess of $100,000. While this group makes up only about 13% of the total number farms/ranches, they account for more than 80% of total net farm income. In fact, the 25,000 farms which average more than one half million dollars in annual farm sales account for about 60% of the total. Many of these large scale operations participate in, and benefit from, federal price support programs (see Appendix, Table 1).

Several recent studies appear to confirm that mid-sized, full time farmers are in the greatest difficulty today and face an uncertain future *(6)*. This is particularly true of younger farmers who pursued an expansionist strategy in the decade of the 1970's and became heavily indebted on the expectation of continued strong prices. Farm programs, as presently structured, have done little to alleviate the distress of farmers in this category. At the same time, however, they have provided unneeded benefits to many large scale, adequately capitalized producers.

The spectacle of huge government payments to large volume producers has provoked renewed interest in "targeting" program benefits to those farmers and ranchers, presumably small and medium scale full time farmers, in greatest need *(7)*. The targeting concept, however, raises a number of serious difficulties. For example, it would be very difficult to devise a means test that would equitably distinguish between needy producers and profitable producers, or between gradations of need. Such a program would certainly tend to encourage inefficiency by rewarding marginal managers. Moreover, if payments were limited, large scale producers would no longer have an adequate incentive to participate in voluntary acreage reduction programs. Voluntary production control efforts would have to be replaced by mandatory controls such as marketing quotas. Clearly, this approach leads down the path of far stricter price and production regulation and a retreat from world markets.

This paper suggests a different approach.

POLICY GOALS

Before proceding to a consideration of specific program reforms, it is necessary to establish a broad framework of policy goals or objectives. Current U.S. policymakers, apparently imbued with the Jeffersonian ideal of the small family farm, have exhibited considerable ambiguity in identifying the goals of a national farm policy. The result has been a patchwork quilt of programs and policies that often work at cross purposes.

This paper identifies four basic objectives of the U.S. food and agricultural industry in 1985 and beyond. They are: 1. greater opportunity for farmers and ranchers to attain profitability in the marketplace; 2. abundant supply of affordable food for U.S. consumers; 3. improved competitiveness of U.S. food and agriculture in world markets; and 4. an efficient allocation of resources and products.

These broad objectives cannot be achieved through government mandates. They can only be realized by the private sector working in concert with prudent public policies that enable the food and agriculture industry to make needed adjustments to rapidly changing conditions. Government policy should be designed to promote, not hinder, these broad objectives.

A dynamic, highly competitive agricultural economy requires greater flexibility in farm program management. This measure of discretion, however, should operate within the stable context of consistent, long term policy objectives. Producers should have some assurance that the rules of the game will not change in mid course, and they should not be subjected to the policy shifts and zig-zags that have all too often characterized recent farm policy.

In support of these goals, the remainder of this paper suggests six farm program reforms that should be included in the 1985 Farm Bill to assure greater competitiveness in domestic and international markets. The final portion of the paper identifies some "safety net" methods and mechanisms aimed at easing the transition from price regulation to a market-responsive farm economy.

These recommendations are necessarily moderate and gradual. A half century of price regulation and supply management cannot be eliminated overnight without an unacceptable level of economic disruption. Moreover, the farm economy does not exist in an ideal environment of free trade and free markets. The aggressive trade practices of some U.S. competitors alone makes a degree of government involvement necessary and desirable. For example, export credit guarantees are a poor substitute for a competitive price system based on comparative advantage, but they are nevertheless essential under the circumstances.

Agriculture, always a risky business, has become even less stable in recent years. Adding to the uncertainties of weather and the biological production cycle, is far greater dependence on purchased inputs and export markets. Consequently, changes in macroeconomic factors and in market supply and demand have greater effect and can occur more often. Some level of government involvement may therefore be necessary, although to a far less intrusive extent than present.

FARM BILL REFORMS

The 1985 Farm Bill provides an opportunity to enact needed reforms in commodity stabilization programs. Six specific reforms are suggested, as follows.

1. *Non-recourse Loans.* Non-recourse commodity loan programs for wheat, corn, feed grains and rice should be determined by a flexible, market-based formula. Non-recourse loans provide important marketing and cash-flow benefits and help producers manage risks. However, inflexible loans, set by statute above market clearing levels, have stimulated production, undermined competitiveness in international markets and resulted in disruptive acreage reduction programs.

2. *Target Prices.* The target price mechanism for wheat, corn, feedgrains, rice and cotton should be eliminated, with an alternative system, carefully designed to avoid any interference with market forces, should be established for equitably dealing with temporary problems of low farm income.

Deficiency payments have proved extremely expensive, benefits appear to have gone largely to those who need them least, and there is growing evidence that target levels, which were designed to be "market neutral," have, in fact, been market disruptive *(8)*.

3. *Farmer-Owned Reserve.* The Farmer-Owned Reserve (FOR) for wheat, corn and feedgrains is both a useful marketing tool and a cost effective method of assuring adequate supplies in periods of production shortfall. However, the FOR should be limited, simplified, and not used to manipulate prices.

4. *Supply Management.* We oppose governmental efforts to control production of wheat, corn, feedgrains, cotton and rice. Supply management programs have been extremely costly and disruptive for farm suppliers, livestock and dairy producers, post harvest industries, taxpayers and consumers, and they have been self-defeating in the larger context of a global agricultural economy.

5. *Dairy.* The Secretary of Agriculture's authority to reduce the dairy support level by periodic, 50 cent increments should be continued beyond its expiration date of September 30, 1985. The gradual "ratcheting down" of the support price is the most effective and equitable method of bringing supply into balance with demand. The dairy diversion program should not be extended beyond its March 31, 1985 expiration date.

6. *Export Development.* Export efforts should be strengthened and redirected by establishing a "ladder" of food aid and export credit programs. At the base of the ladder, Public Law 480 should continue to be fully utilized for the benefit of the poorest nations, with special emphasis on the statute's importance as a trade enhancement mechanism.

Moving up the ladder, intermediate term export credits should be utilized by developing countries which have graduated beyond P.L. 480 donations and concessional sales but which cannot meet the more stringent commercial terms of the GSM-102 short term guarantee program. These middle rung programs should also assist in the construction of handling, storage and other facilities which enhance a nation's ability to absorb greater volumes of agricultural imports and better feed its people.

At the top of the ladder, short term credits, programmed on a multi-year basis, would improve export opportunities among the most prosperous developing nations. Congress should also consider the Grace Commission recommendation that GSM-102 guarantees be made transferable.

Importing nations should be graduated up the ladder as their ability to meet commercial terms improves. This process of graduation might be further strengthened by a new program offering a multiyear line of direct and/or guaranteed credit under terms negotiated with recipient countries. The program would approximate a credit card. Any draw on the credit line would carry a specified—say six month—maturity. As the six month loans are repaid, the revolving credit line is restored by the payment amount and again becomes available for further credit purchases. Such a program would provide the recipient country with long term credit availability and some assurance of dependable supplies.

Food assistance and export market development programs have proven to be a cost effective means of providing humanitarian relief and expanding foreign markets. These programs should not be used to achieve domestic or international policy goals unrelated to food aid or export market development. In particular, cargo preference restrictions should be eliminated or replaced by other methods which do not inhibit export sales and food assistance.

Outcomes

The foreseeable outcome or effect of these six suggested program reforms largely depends on such factors as interest rates, the strength of the dollar, and economic conditions in developing countries. Under a "best case" scenario of falling interest rates, a more favorable exchange rate, and strengthening world demand, these reforms might be accomplished with very little disruption to farmers or the rural economy because prices would remain strong despite the phased withdrawal of government supports.

However, under less favorable circumstances, the combination of recommendations 1, 2, and 3 (target price phaseout, market-clearing loan rates, and a simplified Farmer-Owned Reserve) would probably result initially in lower grain prices, a drop in net farm income, the continued loss of full time family farmers *(9)*, and the removal of perhaps as many as twenty to thirty million acres in excess grain production capacity *(10)*. Similarly, any drop in dairy supports much below the current $12.60 per cwt level is likely to result in acute distress among highly leveraged dairymen, especially in regions which produce high percentages of manufacturing grade milk.

The benefits of the six suggested reforms become obvious in the longer term. Prices would stabilize within a market responsive range, export competitiveness would improve, production would come more in balance with demand, farm incomes would improve and budget expenditures would decline. The longer term outcomes would include greater opportunity for profitability among surviving farmers and ranchers, a stronger agribusiness economy, improved competitiveness in world markets and a far more efficient allocation of farm resources *(11)*.

Federal programs have caused inefficient resource allocation over many years, often resulting in excess capacity. This has been the effect not only of price support programs for grain, cotton and dairy, but also of import quotas, export subsidies, disaster payments, as well as cheap water, cheap credit and cheap energy policies.

There is no painless way to induce the needed resource adjustment. Some farmers may be forced out of business and others may be forced into less profitable commodities. A phased reduction of price supports may ease the pain, and temporary, structural adjustment programs might be devised to help some farmers survive the transition and help other farmers move into the non-farm workforce if they so choose.

STRUCTURAL ADJUSTMENT MEASURES

Government has an obligation to bring about structural reforms in as smooth and orderly a manner as possible. Congress and the Administration should therefore consider the development of temporary "safety net" measures to accompany market-responsive reforms in the farm program. Such safety net programs, however, should meet three essential and minimal criteria: 1. their cost must be less than the programs they replace; 2. they should be terminated at the end of an appropriate period; 3. they should include means tests or other mechanisms to assure that benefits are directed only to those truly in need; and 4. they separate income maintenance from price supports.

Congress and the Administration may wish to consider any number of safety net options. For example, one program might be aimed at those producers whose long term prospects for survival are excellent but who face a short term cash flow crisis resulting from excessive indebtedness. This group may include many skilled managers with fundamentally solid but highly leveraged operations who cannot "cash flow" under double digit interest rates. Such producers would benefit from an expanded FmHA Economic Emergency Loan Program or from a federal "buy down" of interest rates on farm operating loans underwritten by commercial lenders or production credit associations. (It may prove very difficult, however, to distinguish between those producers who constitute a sound investment and other, inefficient managers who would simply dig themselves deeper into debt at public expense.)

Other "structural adjustment" measures might be designed to accelerate necessary structural trends. Such a program might be aimed at farmers who are producing crops on land that is unsuitable for production for reasons of soil type, climate or proneness to flooding, and whose survival depends on disaster payments and high price support levels. These producers might be "bought out" by means of long term conservation contracts aimed at permanently converting cropland into grassland or woodland *(12)*. The contracts might utilize a bid system to minimize cost to the government. Such a program would have a conservation benefit and also reduce excess production capacity in targeted areas.

Other structural adjustment measures might involve a mix of public and private sector resources. One method is insurance. Farmers may ensure a specific price through forward contracting or selling/buying future contracts. A new and promising tool has recently become available. This year, trading in commodity futures options has begun on a trial basis for the first time in fifty years. With a put option, producers will be able to buy the right to sell their future production at a specified price. Since they are buying the right, and not an obligation, they are locking in a price if the market subsequently falls, and they retain the opportunity to tear up the option if the market subsequently rises.

Similarly, livestock producers will be able to buy insurance against increases in the price of their feed by buying call options. Months later, if the cost of feed goes up, they exercise the option. If it goes down, they tear up the option and buy on the cash market.

Congress may wish to consider subsidizing the cost to eligible farmers and ranchers of purchasing commodity futures options. This proposal might be tested on a pilot project basis.

Another private sector method of managing risk is revenue insurance. The object would be to stabilize income instead of prices. It might work as follows. A farmer would be guaranteed that his revenue per acre of each crop would not fall below some proportion of expected revenues. For example, a corn farmer might insure 75% of average revenue per acre based upon recent experience. If revenue from the corn crop was less that the insured level—due to either low yields or low prices—the farmer would receive an indemnity equal to the difference. An indemnity would not be paid if revenues were inside the normal range or variation within a "deductible."

In 1981, Congress directed USDA to undertake a feasibility study of farm revenue insurance *(13)*. The study was completed in 1983, and concluded that the concept merits further consideration *(14)*. A similar study by the Congressional Budget Office *(15)* arrived at the same conclusion. Both studies suggested that a pilot revenue insurance program might be undertaken by the Federal Crop Insurance Corporation. FCIC might provide premium subsidies to get the program underway.

BEYOND 1985

Dramatic changes have occurred in the agriculture and food industries since 1970, and even more dramatic changes will almost certainly occur in the next several decades. These are likely to include changes in consumer food preference and diet, improvements in marketing technology and farm management, changes in processing and distribution, breakthroughs in genetic engineering, to name just a few. Other factors can only be surmised. For example, will groundwater contamination/depletion force changes in cropping patterns? Will biological pesticides successfully replace chemical pesticides? What will be the cost of energy, or the strength of the dollar, or the extent of world trade protectionism?

While we cannot anticipate economic conditions in ten or twenty years time, we can be certain that the economic health of U.S. agriculture and the food and fiber industry depends on two conditions:

1. its ability to respond to challenges and opportunities in a flexible and timely fashion; and
2. its competitiveness in domestic and world markets.

These conditions can only be met in a market-responsive environment driven by the three principles of competitive price, product quality, and dependability of supply.

With one in every three or four planted acres now producing for export markets, U.S. agriculture is part of a highly competitive global food and fiber system. Moreover, as the U.S. farm sector has become more specialized, it has become increasingly integrated into the total domestic food and agribusiness industry which now accounts for more than 20% of U.S. gross national product. Consequently, farm policy has an effect throughout the entire U.S. and world economy, and efforts to regulate U.S. commodity prices and supply have an immediate and harmful impact on exports and on the whole chain of food and fiber industries.

Making regulation more effective (by moving toward mandatory production controls, for example) may help reduce government outlays and assure a more equitable distribution of benefits, but its ultimate effect will be higher food costs at home, the loss of export markets, and a shrinking agricultural economy. In short, more regulation will only make the situation worse. The only viable reform is less regulation.

BROADER CONTEXT

Since U.S. agriculture has become increasingly integrated into the general economy, macroeconomic factors such as tax policy, monetary and fiscal policy, and trade policy may have as great or greater effect on U.S. farmers and ranchers than traditional farm programs. The farm and food sector has an especially large stake in low inflation, low interest rates, stable monetary exchange rates, and less restricted international trade.

With respect to the latter item, the U.S. government should vigorously press its case against agricultural trade protectionism and unfair trade practices at every possible opportunity. In particular, there is an urgent need to strengthen GATT rules on import quotas, export subsidies and non-tariff barriers, such as unjustifiable health and packaging standards. Policymakers should also reexamine U.S. laws and regulations that inhibit export development (e.g. Cargo Preference) or limit U.S. markets for foreign food agricultural products. Finally, the U.S. must always strive to maintain a reputation as a reliable supplier.

It is also essential that the United States maintain its competitive edge in agricultural science and technology. The federal/state/private sector partnership for agricultural research and extension, dating back to 1862, has served the nation extremely well. Food and agriculture research and extension have made significant contributions to a wide range of social and economic needs, helped solve environmental and nutritional problems, and provided new and better ways to improve food and fiber production, processing and marketing. Consequently, public assistance should continue to be made available, especially in areas of basic research which are frequently beyond the capacity of individual producers and firms.

CONCLUSION

An economic environment in which farmers and ranchers are provided the opportunity to seek profitability in a dynamic and expanding marketplace is an environment consistent with the best interests of consumers and of other segments of the food and agriculture industry. Farm policy reform will likely involve painful adjustments in some sectors of agriculture and agribusiness. Nevertheless, a market directed policy will free-up numerous tax dollars which can be used to fund temporary programs aimed at cushioning the necessary structural adjustments. In any case, it is essential to the future strength and profitability of the U.S. food and agricultural industry that the new Farm Program enacted in 1985 moves decisively toward greater market responsiveness.

NOTES AND REFERENCES

(1) Council of Economic Advisors, *Economic Report of the President,* February, 1984, p. 112.

(2) For a discussion of the impact of U.S. production controls on exports, see Congressional Budget Office, *Crop Price-Support Programs: Policy Options for Contemporary Agriculture,* February, 1984, pp. 27–30.

(3) Economic Report of the President, p. 112, ff.

(4) Ibid., p. 114–5.

(5) See Congressional Budget Office, "Crop Price Support Programs: Policy Options for Contemporary Agriculture," February, 1984. Also see U.S. Department of Agriculture, *Economic Indicators of the Farm Sector: Farm Sector Review,* 1982. ECIFS-2, May, 1983; U.S. Department of Agriculture, *Farm Commodity Programs: Who Participates and Who Benefits?* Economic Report Number 474. September, 1981; and U.S Department of Agriculture, *U.S. Farming in the Early 1980's: Production and Financial Structure.* Economic Report Number 504. September, 1983.

(6) See, for example, USDA, *Economic Indicators of the Farm Sector,* January, 1984, Table 19, pp. 146 ff, or Luther Tweeten, "Excess Farm Supply: Permanent or Transitory?", in U.S. Senate Committee on Agriculture, Nutrition, and Forestry, *Farm Policy Perspectives: Setting the Stage for 1985 Agricultural Legislation,* April, 1984, pp. 29–43.

(7) An articulate case for targeting is made by former Secretary of Agriculture Robert Bergland in testimony before the U.S. House of Representatives Committee on Agriculture, February 28, 1984.

(8) Secretary of Agriculture John R. Block described the way in which supposedly "market neutral" targets have influenced the planting decisions of the Argentines and other competitors in testimony before the Joint Economic Committee of Congress on May 19, 1983.

(9) See National Agriculture Forum, *Alternative For U.S. Food and Agricultural Policy,* Washington, D.C., First Draft, August, 1984, pp. 95-128.

(10) Abel, Martin and Draft, Lynn, *Future Directions for U.S. Agriculture Policy,* Final Report of Agriculture, Stability and Growth: Toward a Cooperative Approach. The Curry Foundation, Washington, D.C., pp. 3-4.

(11) See Alternatives For U.S. Food and Agricultural Policy, pp. 105-107.

(12) The U.S. Soil Conservation Service is encouraged by the preliminary results of a pilot cropland retirement program now operating in several southeastern states.

(13) See Agricultural and Food Act of 1981 (PL 97-98), Title XI, December 10, 1981.

(14) U.S. Department of Agriculture, Insuring Farm Revenue, 1983.

(15) Congress of the United States, Congressional Budget Office. *Farm Revenue Insurance: An Alternative Risk Management Option for Crop Farmers.* August, 1983.

APPENDIX

TABLE 1

Structure of Farming in 1982: Farms by size, number, net income and assets

Farm Sales Class	No. of Farms (1000s)	% of farms	Per farm net income	% of net	Non-Farm income	Net worth per farm
$500,000 and more	25	1.0	572,000	59.9	25,900	2,651,000
$200,000-$499,999	87	3.6	54,072	19.5	13,128	1,322,000
$100,000-$199,999	186	7.7	19,892	15.4	11,008	866,000
$ 40,000-$ 99,999	393	16.4	5,343	9.1	10,857	521,000
$ 20,000-$ 39,999	273	11.4	366	0.6	13,034	324,000
$ 19,000 and below	1,436	59.8	-69	-0.1	18,769	137,000
All Farms	2,400					347,000

Source: Derived from 1982 "Economic Indicators of the Farm Sector," ERS/USDA

TABLE 2

NUMBER OF FARMS AND LAND IN FARMS, UNITED STATES, JUNE 1, 1978-83

YEAR	NUMBER OF FARMS	LAND IN FARMS	AVERAGE SIZE OF FARMS
	THOUSANDS	THOUSAND ACRES	ACRES
1978	2,436	1,044,790	429
1979	2,430	1,043,195	429
1980	2,428	1,042,245	429
1981	2,434	1,042,100	428
1982	2,400	1,038,530	433
1983	2,370	1,035,160	437

Source: Crop Production, August, 1983 B-23 Crop Reporting Board, SRS, USDA

TABLE 3

PERCENT OF FARMS, LAND IN FARMS, AND AVERAGE SIZE, BY ECONOMIC CLASS, UNITED STATES, JUNE 1, 1982-83

ECONOMIC CLASS GROSS VALUE OF SALES	PERCENT OF TOTAL				AVERAGE SIZE OF FARMS	
	FARMS		LAND			
	1982	1983	1982	1983	1982	1983
	PERCENT				ACRES	
$ 1,000-$ 9,999	51.3	50.2	12.1	11.1	102	97
$ 10,000-$99,999	35.8	36.6	43.3	41.7	523	498
$100,000+	12.9	13.2	44.6	47.2	1,494	1,561
TOTAL	100.0	100.0	100.0	100.0	433	437

Source: Crop Production, August 1983 B-23 Crop Reporting Board, SRS, USDA

TABLE 4

COMMODITY CREDIT CORPORATION PRICE SUPPORT AND RELATED EXPENDITURES, FISCAL YEARS 1961-1983
(In millions of dollars)

Year	Major Crops a/	Dairy	Other b/	Total
1961-1965 Average	1,546	236	437	2,219
1966-1970 Average	2,287	142	389	2,818
1971	1,576	217	1,029	2,822
1972	3,289	174	520	3,983
1973	2,114	117	1,324	3,555
1974	1,561	46	-603	1,004
1975	433	424	-282	575
1976	359	40	615	1,014
1977	2,812	469	528	3,809
1978	3,321	240	2,062	5,623
1979	1,647	24	1,901	3,572
1980	2,153	1,011	-447	2,717
1981	1,370	1,894	736	4,000
1982	8,989	2,300	309	11,598
1983 (Projection)	13,517	2,190	5,393	21,100

SOURCE: Congressional Budget Office from U. S. Department of Agriculture data.

NOTE: - Minus signs indicate net receipts.

a. Wheat, feed grains, rice, and upland cotton.

b. Includes other commodity programs, interest, and administrative and nonadministrative expenses.

TABLE 5

INDICATORS OF GOVERNMENT INTERVENTION IN AGRICULTURE, FISCAL YEARS 1956-1983

Year	Commodity Loans and Inventory (In millions of dollars) a/	Price Support Outlays (In millions of dollars) b/	Acreage Idled Under Government Programs (In millions) c/	Income Return to Equity in Farm Assets (In millions of dollars) d/
1956-1960 Average	7,100	1,633	24	4,900
1961-1965 Average	6,900	2,219	52	5,712
1966-1970 Average	4,200	2,818	54	8,346
1971	4,600	2,822	38	9,096
1972	3,100	3,983	62	9,349
1973	3,400	3,555	20	14,518
1974	1,600	1,004	3	30,167
1975	600	575	2	21,394
1976	700	1,014	2	20,633
1977	1,100	3,809	--	13,995
1978	4,000	5,623	18	13,725
1979	5,300	3,572	12	21,715
1980	5,000	2,717	--	27,309
1981	7,900	4,000	--	15,144
1982	8,900	11,598	9	20,589
1983 (Projection)	16,900	21,100	82	13,257

SOURCE: U.S. Department of Agriculture and the Congressional Budget Office.

a. Total of outstanding commodity loans and CCC-owned inventories at start of the fiscal year.

b. CCC price support and related expenditures by fiscal year.

c. Acreage idled in calendar year in which fiscal year ends.

d. The income return to capital invested in agriculture less interest on borrowed funds. Return in the calendar year in which fiscal year starts. Provided by Emanuel Melichar, Senior Economist, Division of Research and Statistics, Board of Governors of the Federal Reserve System.

STATEMENT OF WARREN LEBECK, REPRESENTING THE NATIONAL GRAIN TRADE COUNCIL

Mr. Chairman and Members of the Committee: My name is Warren Lebeck. I appear before you today representing the National Grain Trade Council. I am a member of the Council's Board of Directors and Executive Committee.

The Council is a national trade association whose policy-making members include grain exchanges, boards of trade, and national grain marketing organizations.

We appreciate the opportunity to appear before the Committee today to present our views on legislative proposals to replace the Agriculture and Food Act of 1981. These legislative proposals before Congress represent a truly critical choice for the long-term well-being of the entire agricultural industry.

The National Grain Trade Council believes the 1985 farm bill presents an opportunity to stem the erosion of the United States' position in international markets, to regain our role as the pre-eminent supplier of agricultural commodities in world markets, and to place agriculture policy on a firm foundation for the long-term benefit of this important industry.

All aspects of agriculture have a vital stake in the policy choices Congress will make this year to guide future farm programs. Agricultural producers, obviously, are certain to be among those most affected by the 1985 farm bill. The livelihood of many others in the agriculture sector, such as those who supply equipment, seed, fertilizer, and other inputs, as well as those involved in the marketing and processing of farm products, will also be affected by the direction of future farm policy. As a whole, agriculture is the nation's largest industry, providing over 23 million jobs and 20 percent of the Gross National Product.

Exports have become the lifeblood of agriculture. Exports provide a market for the production of nearly 60 percent of the nation's wheat, about 25 percent of the corn, and nearly 50 percent of the soybeans. About 100 million crop acres are devoted to exports. Without export markets, it would be necessary to idle one-third of the country's crop acres

With our reliance on exports, the economic health of agriculture is closely related to the world economy. When the world economy slid into recession in 1980, demand weakened for agricultural exports. Simultaneously, competition for international markets increased.

While competition stiffened for a decreasing portion of export markets, the value of the U.S. dollar began to move up, increasing in strength by over 30 percent since 1980, giving our competitors a substantial price edge. In a shrinking market, our sales price increased due to the strong dollar.

As the dollar's value increased against foreign currencies, we were gradually priced out of world markets. Our domestic price support rates effectively set the minimum U.S. price above market clearing levels. We are now the residual supplier in world markets.

The U.S. share of world trade in agriculture has been declining over the past several years. Our share for grains peaked at 60.1 percent in 1979 and now stands at about 50 percent. U.S. agricultural exports, which recorded back-to-back gains during the 1970's, have fallen during the last four years.

In fiscal 1985, the value of U.S. agricultural exports is expected to drop to $35.5 billion, from $38 billion in fiscal 1984. Export value is down over 20 percent from 1981 when our exports were valued at $43.78 billion. Export volume in 1985 is expected to increase slightly to 145.5 million metric tons, compared to 143.6 million tons in 1984. Export volume is off by over 10 percent from 163.9 million tons shipped in 1980.

The reduction in exports has left the entire agricultural system over-extended.

Our loss of export market share comes as a particularly bitter pill following the export boom in the 1970s and a general optimism that such demand would continue indefinitely. In the 1970's, the United States set export sales records year after year in selling our products abroad. During this period, corn exports quadrupled, wheat and soybean exports nearly doubled, and the United States captured 75 percent of the world-wide growth in agricultural trade.

A strong export performance is critical to the financial health of agriculture. The loss of export markets is at the heart of agriculture's current problems. To regain our position in export markets, we must be price competitive. When a producer can receive a better return by placing his grain under loan and eventually forfeiting this collateral to the government than he can receive in the market, then he will produce for the government programs. When this happens, export orders are filled by other countries and stocks under government control in this country increase.

The Council believes that agriculture's current problems are ample evidence that a new direction is needed for farm policy. We believe that basing agricultural policy on market principles offers a far better solution to current problems than reliance on continued or increased government intervention. We recommend the following steps be taken to return agriculture to a market-oriented footing:

1. Loan rates be flexible and set at rates that allow the United States to be competitive in international markets;
2. Target prices be discontinued and replaced by an income support program aimed at farmers in the middle tier of sales;
3. Reserves be continued, but capped at a specified level;
4. Set-aside and acreage reduction programs be eliminated. We would favor a long-term conservation diversion program; and
5. Export promotion programs be expanded to stimulate U.S. agricultural exports.

MARKET-ORIENTED LOAN RATES

We believe that placing loan rates on a market-oriented basis can best be achieved by basing loan rates on a moving five-year average of market prices, dropping the high and low years.

Such a market-based formula should remove the price umbrella the U.S. support levels now hold over world prices and will allow U.S. exports to be competitive in international markets. This approach will clearly signal to the world that we intend to retain our markets and aggressively seek out new markets.

Another possibility for the loan program would be to change it from a non-recourse to a recourse loan. This change would still provide producers with needed credit, enabling them to market their crops in an orderly fashion, however, the government would not be bound to assume the load at artificially high levels.

TARGET PRICES

We believe target prices should be discontinued in favor of a more targeted approach to protect middle-sized family farms against temporary problems of low farm income.

Target prices have not been successful in assisting farm income, they are not expensive, they go mostly to larger farmers who need them least, and they encourage foreign production. A Congressional Budget Office study said that in the 1980's ". . . government intervention has reached the highest level in history—as measured by price-support outlays and acreage idled under government programs—but has not enhanced farm incomes significantly."

We do believe it is desirable to provide some type of income protection to farmers, targeted to those who need it most. A program to replace target prices should be designed to avoid interference with market forces. Such a program could be aimed to assist those farms with annual sales between $40,000 and $200,000. This group of farms seems to represent the middle tier and is that which most needs the assistance.

Smaller farms, those with annual sales of less than $40,000, appear to derive most of their income from jobs off the farm. It is difficult to justify income assistance to the largest farms, those with annual sales over $200,000. These larger farms generally earn net incomes substantially above the average income for all families in the United States.

RESERVES

We support continuation of a grain reserve, but suggest the reserve be capped at specific levels.

There are good reasons for maintaining reserves; they demonstrate to the world we intend to be a reliable supplier and they provide stocks for responding to emergency situations. There are also arguments against a reserve, principally that reserve stocks overhang the market, further depressing prices.

We believe the negative effect of reserves can be minimized by capping the reserve at specific levels. The specific level could either be in terms of quantity, such as two billion bushels of wheat and feed grains, or as a percent of total use, such as 15 percent of annual wheat use and 10 percent of annual feed grain use.

We believe there is merit in the concept of eliminating trigger prices for release from the reserve in favor of simply paying a farmer to store reserve grain for a specified period of time.

SET ASIDES AND ACREAGE REDUCTION PROGRAMS

We recommend that set asides and acreage reduction programs be eliminated. We would support a long-term conservation diversion program.

We believe there is ample evidence that supply management programs are self-defeating, ineffective, expensive, and encourage foreign production.

We would support a conservation diversion effort to remove fragile lands from intensive cultivation back to soil-conserving uses. The government, under such a program, could buy the cropping rights for an extended period on a bid basis.

EXPORT POLICIES

We believe aggressive promotion programs could aid in building export markets for our products. We recommend that P. L. 480 be continued for the poorest countries, but with the program streamlined and redirected toward long-term market development. We support multi-year programming for P. L. 480.

Intermediate-term credit programs should focus on infra-structure development; private investment and market development programs should be encouraged; and U.S. markets should remain open to exports from middle-income developing countries to assist them in becoming commercial customers.

The Council does not believe that institutionalizing direct export subsidies would be good public policy. Direct export subsidies should be used only to achieve specific goals, not as a general policy. One factor limiting our export sales is the lack of financial liquidity in the world. Direct export subsidies would not ease this problem of liquidity.

We are deeply concerned by the problem of cargo preference requirements. As you know, a recent Court decision has ruled that USDA's blended credit program should be subject to the requirement that 50 percent of those shipments be on U.S.-flag vessels. The higher cost of U.S.-flag vessels completely negates the advantages of the blended credit program, and, as a result, USDA has suspended this important credit program. The Court ruling has also cast a shadow over the GSM–102 program, leaving open the possibility of a suit seeking to impose cargo preference requirements on the GSM–102 program.

We support, as an immediate step, legislation to exempt agricultural exports, except P. L. 480 shipments, from cargo preference.

We further support efforts to completely remove the applicability of cargo preference to agricultural exports. The Council believes that funds allocated for humanitarian purposes, such as those under P. L. 480, should not be used to subsidize the maritime industry.

The Council opposes the Administration's proposal to increase the origination fee on GSM–102 loans to five percent. Such a fee would seriously detract from the loan program and dramatically increase the loan fee which is now about one-third of one percent. We would support a provision in the farm bill placing a ceiling on such fees at the one-third of one percent level.

We believe the United States should aggressively seek the elimination of unfair trade practices by other countries. We are asking our farmers to compete in the international market and it is not fair to expect them to compete against the treasuries of foreign nations.

We favor programs that will help potential customers earn the foreign exchange they need to buy U.S. agricultural products. This means determined efforts against domestic protectionist pressures and, thus, keeping U.S. markets open to the exports of other countries.

In conclusion, a number of factors have contributed to agriculture's current problems. We believe future farm legislation should provide sufficient flexibility for the United States to respond to changing conditions in a dynamic international market place.

We favor a policy that will return long-term prosperity to agriculture, for, as a rule, when agriculture prospers, we all prosper. Conversely, when agriculture suffers, we all suffer.

We believe market-oriented policies offer the best solutions to current problems. We are aware that many of agriculture's problems lie beyond the scope of the farm bill and cannot be resolved in this forum.

A market-oriented farm policy will provide the best framework for restoring the long-term health of the nation's largest industry.

STATEMENT OF DEAN R. WEBSTER, CHAIRMAN, AMERICAN FEED INDUSTRY ASSOCIATION

Mr. Chairman, I want to thank you for this opportunity to appear today on behalf of the American Feed Industry Association (AFIA) to share our views on the need for a new direction in U.S. farm policy. I am Dean Webster, president of the H.K. Webster Co., Lawerence, Mass., and I serve as the current chairman of AFIA. (By way of explanation, AFIA was known until last Tuesday as the American Feed Manufacturers Association (AFMA). Our members voted to change the name of the organization to more accurately reflect its membership.)

AFIA is the national trade association representing the manufacturers of more than 70% of the primary formula livestock and poultry feed sold each year in the U.S. Our industry annually buys $10–15 billion in feed ingredients, mostly grain and byproducts, making the U.S. feed industry the largest domestic user of grain.

Like many other national groups, AFIA has not been a traditional "player" in the farm policy debate. We have left farm program development to the respective commodity/producer groups. However, AFIA can no longer afford the luxury of simply observing this process. The seemingly ever-increasing cost of Federal farm programs, and desperate measures taken to control supplies and program costs, such as the Payment-in-Kind Program, argue for the strong participation in farm policy development of every group with a stake in the economic future of American agriculture.

AFIA's philosophical position is very similar to that of the Nation's cattle, pork and poultry producers. We are vitally concerned that market forces be alllowed to work in the agricultural sector, and that Government participation be minimized. Government programs that increase feed ingredient prices make it more difficult for livestock and poultry producers to operate profitably. These increased feed costs are eventually reflected in the cost of meat, milk and eggs to the consumer.

FARM POLICY GOALS

AFIA commends your committee for the format of these hearings, which recognizes the much broader agricultural interest in the 1985 farm bill than ever before, and the need to be re-orient farm legislation from the assumptions of the past to the reality of the present and the uncertainties of the future. While the goals of the original drafters of farm program legislation and this committee are identical, namely stability and profitability for the farming sector, our Federal farm programs now work against those goals.

According to the 1983 Grace Commission report on Federal cost containment in farm programs, the U.S. Department of Agriculture's current slate of farm programs has achieved the following dubious record:

Induced record production and stocks at a time of stagnant domestic and world demand;

Weakened U.S. farmers competitive position in world markets;

Preferentially diminished the economic viability of the small farm; and

Committed the Federal Government to crop program outlays that far exceeded projected levels.

It is also worthy of note that while the original intent of these programs was laudable, the largest producing segments of agriculture—livestock and poultry production—have never operated under these programs. In fact, farm programs which operate today actually tend to "de-stabilize" the market for meat and poultry.

We are currently burdened with Federal farm programs that no longer function as they were intended because the realities of the marketplace have evolved in a direction no one considered possible when the last farm bill was enacted in 1981. These programs discriminate against livestock and poultry producers in particular by increasing their cost of production, making it increasingly difficult for them to compete in both U.S. and world markets. The negative effects on livestock and poultry producers make it more difficult for the feed industry to operate profitably.

AFIA is gratified that the administration and Sen. Helms have both taken on the task of framing farm legislation that recognizes that future farm policy for this country must be flexible. Sen. Helms, in his floor remarks at the introduction of S. 616, very accurately described the consequences of maintaining the status quo, the inability of "public utility" agriculture to do anything but harm to an already injured farm economy through its overly protective philosophy, and the need for change.

Both bills also recognize that U.S. farm policy cannot be framed in a domestic vacuum. Future policy must recognize that export markets do not automatically exist for U.S. products, and that our farm programs must take into account that the U.S. will have to aggressively compete for every dollar in foreign trade from now on.

To that end, the 1985 farm bill must include mechanisms that place U.S. producers in a stong competitive position, one that will allow them the freedom to react quickly to world market changes, and thereby expand export sales.

It is time now to take what lessons we can from past experience and move forward in a direction that allows the farm economy of this country to operate as it should—in a free market atmosphere to the greatest extent practical. U.S. producers must be allowed the flexibility to react to market forces rather than be held hostage by them.

AFIA is currently reviewing both the administration's bill and Chairman Helms' S. 616, as well as legislative alternatives put forward by other concerned groups. While we strongly support the philosophy and the direction advocated by these market-oriented approaches, we are not in a position today to comment on the specific proposals made in each bill. When our review is complete, we will provide a copy of that review and our position to this committee and other interested parties. You will note, however, the strong fundamental similarity between S. 616, the administration's bill, and AFIA's farm policy objectives.

AFIA FARM BILL OBJECTIVES

AFIA's farm bill objectives are the result of more than a year of discussion and debate within our membership. At the heart of our farm policy objectives is the realization that, over the long run, current farm programs are not in the best interest of agricultural producers, consumers or the Nation's taxpayers.

AFIA supports a market-oriented farm economy, with a safety net approach to protect producers from extremely low prices. Government farm programs should not artificially encourage production at home or abroad. Federal farm policy should aggressively work to return the U.S. to its position as a reliable agricultural supplier to world markets.

1985 omnibus farm legislation under consideration by the 99th Congress offers an immediate opportunity to make the necessary reforms in specific commodity programs. AFIA suggests the following goals for a flexible, internationally oriented, free market farm policy:

Exports: The U.S. must regain its role as a reliable supplier of agricultural products to world markets. This reliability must extend beyond periods of domestic surplus. AFIA supports additional Federal efforts to increase exports of animal products. While reducing artificial trade barriers overseas to the import of U.S. products.

Agricultural products should be exempt from future embargoes called for foreign policy reasons; an embargo called for either foreign policy or short supply reasons should be ended after 60 days unless part of a total trade embargo or extended by a joint resolution of Congress.

Target prices: Target prices for wheat, corn, feed grains, rice and cotton should be replaced with a system of income maintenance for smaller farms, specially designed to avoid any disruption of market forces. A transition period will be necessary, with target prices set at progressively lower levels year by year, until they are phased out completely.

Non-recourse loans: The non-recourse Federal loan program should be replaced by a flexible, market-based formula. While these loan programs for corn, wheat, feed grains and rice are valuable risk management tools for farmers, inflexible loan rates set by law above market clearing levels stimulate over-production, place the U.S. at a competitive disadvantage in export markets, and eventually force disruptive acreage reduction programs.

Dairy Program: The Secretary of Agriculture's authority to adjust dairy support price levels periodically based on Government purchases should be extended beyond the Sept. 30, 1985 expiration date. The periodic adjustment of the dairy support price is the only fair and effective way to bring supply back into balance with demand—and to maintain that balance.

Farmer-owned reserve: The farmer-owned reserve should be capped, its mechanism simplified and it should be isolated from policy decisions that manipulate domestic and export prices. The reserve has shown it can be a cost-effective marketing tool during temporary production shortfalls if properly constituted and managed.

Supply control: Crop production controls should be eliminated. A transitional period during the next few years may be necessary to achieve this goal. AFIA supports a long-range land conservation program aimed at retiring the Nation's most fragile lands. AFIA also supports a domestic livestock and poultry industry free of production and marketing controls.

Credit issues: One of the most pressing issues today facing the U.S. feed industry is that of double jeopardy—the risk of having literally to pay twice for the farm products we buy. This occurs because of the so-called farm products exception in the uniform commercial code which treats the buyers of farm products differently than any other buyer of goods in commercial commerce. The law today says that if a farmer defaults on a loan for which he has pledged his crop or herd as collateral, the lender can legally force the innocent buyer to make good the farmers loan, even if the buyer has already paid the farmer for the goods.

Sen. Cochran has introduced S. 744, currently drafted as an amendment to the 1981 farm bill, that will bring equity back to this situation. AFIA, along with 16 other national agriculture groups strongly supports S. 744 as a moderate approach to solving the problem of double jeopardy due to undisclosed crop and livestock liens. The bill allows the lender the option of notifying the potential buyers as listed by a farmer/borrower that a lien exists and how the buyer must make payment to protect the lenders security interest. This system works well today in California, Illinois, Indiana, Ohio, Tennessee and Kentucky, and it can work well for the Nation as a whole. AFIA urges all members of this committee to support S. 744 when it is likely offered as an amendment to the 1985 farm bill.

Market-oriented reforms in Federal farm policy, such as those we have recommended, obligate the Federal Government to seek change in the most orderly, efficient manner possible. This will entail a transition period of reasonable length, and temporary programs that must meet the following criteria:

Such temporary programs should separate income maintenance from price support;

The combined cost of transition programs should be less than that of the programs they replace;

These programs should be ended after an appropriate transition period; and

They should include some type of means test or other tool to target income assistance to only those producers who truly need transition assistance.

BALANCED ECONOMIC PROGRAM/DEFICIT REDUCTION

Not even the best-designed farm policy reforms offered by AFIA and others will mean a thing unless the Congress and the administration recognize that inherent in the health of U.S. agriculture is a sound national economy. This includes reduced Federal deficits, lower interest rates and continued low inflation.

AFIA urges the members of this committee, their colleagues in the Congress and the administration to take immediate action aimed at sharply reducing the Federal deficit. It is extremely important to the future of this Nation and its citizens that rigorous action be taken this year to achieve this objective. Every segment of Federal expenditure should be seriously considered for possible reduction. As long as such spending reductions are equitable, we feel the vast majority of U.S. citizens will support such an effort.

So, the effort is doubly difficult, but one that AFIA is confident can be achieved. Legislation has been introduced, including S. 616, which puts us on the right road, one which will eventually lead to a flexible farm policy for this country that will allow producers to react and make a profit in both domestic and international markets. Some difficult decisions must be made, decisions which will take courage but which must be faced for the long-term survival of U.S. agriculture.

Again, Chairman Helms, thank you for the opportunity to be here today on behalf of AFIA. We are ready to work with this committee to achieve the changes we have discussed today.

STATEMENT OF SHERWIN GARDNER, VICE PRESIDENT FOR SCIENCE AND TECHNOLOGY, GROCERY MANUFACTURERS OF AMERICA, INC.

Mr. Chairman, members of the Committee. I am Sherwin Gardner, Vice President for Science and Technology of the Grocery Manufacturers of America, Inc. (GMA)

GMA is a 75 year old national trade association. Our membership is comprised of over 130 companies which manufacture food and non-food products sold in retail grocery stores throughout the United States. Our member companies employ over 2.5 million people nationwide and have total annual sales in excess of $250 billion.

I have been with GMA since 1979. Prior to joining GMA, I served as Deputy Commissioner of the U.S. Food and Drug Administration for seven years. My undergraduate and graduate education is in the field of engineering research and development, and my duties at GMA include technical aspects of food protection.

GMA appreciates this opportunity to appear before the Committee to discuss the need to require national uniformity in tolerances for pesticide residues in food, both raw agricultural commodities and manufactured products. We believe this is a matter of great importance to agricultural producers as well as food manufacturers.

A national uniformity requirement is needed because virtually every State has one or more laws regulating the safety of pesticides in food, and repeated attempts to achieve national uniformity in the enforcement of these laws have been unsuccessful. Pesticides are of critical importance to food production in this country, and our nationwide food production and marketing system depends upon uniformity in their regulation.

We are asking the Committee to consider this matter now because of the recent experience arising from use of the pesticide ethylene dibromide (EDB).

The State of Florida in December 1983, because of safety concerns over consumer exposure to EDB, took unilateral action in banning any food product that contained any measurable amount of EDB.

To make a long story short—about two months after Florida's action, the EPA established new safety standards for raw grain, intermediate products, e.g., cake mixes, flour and ready-to-eat foods. In the judgment of a large number of independent scientists, these standards provided a wide margin of safety to the public. Not only did GMA member companies pledge to meet the federal standards, they instituted special manufacturing controls to rid the food supply system of EDB treated grain products as soon as possible. They also provided data to federal and state agencies to demonstrate the status of EDB residues in grain based foods.

Notwithstanding strong federal action and a determined effort by industry to meet and exceed Federal tolerances, several states including Massachusetts, New York, Maine, Texas, New Jersey and California each adopted different standards. These standards, which in some cases were impossible to meet, did not provide the public with any additional health protection. For the first time in the modern history of federal regulation of the nation's food supply, states abandoned the Federal safety standard for agricultural commodities and manufactured foods marketed throughout the country. Generally speaking, today there are four different requirements for EDB residues: One is the federal regulation; Massachusetts and Maine have a second different set of regulations; New York and New Jersey have a third set which differs from the first two; and California has yet a fourth different level.

Thus, food growers, processors and manufacturers had to deal with inconsistent state and federal standards affecting the marketing of grain and products manufactured from that grain. Compliance with different and inconsistent standards is difficult, if not impossible, for the food industry which is, after all, national in scope. A given batch of grain, for example, may be grown in one state, stored for a period of time in another, processed into finished product in a third, sent to a distribution warehouse in a fourth state, and from there sold to consumers in half a dozen states nearby. It is not feasible for a manufacturer to prepare one batch of food to meet the standards of one state and another batch to meet a different standard in a second state. In the same way, it is not feasible for a grower to set aside one part of his crop for sale in one state and another part of his crop for sale in a second state.

Actions by states to set different standards also creates confusion in international markets. The Soviet Union, for example, expressed concern over the EDB action to U.S. wheat exporters. As a result they agreed to accept grain that did not have residue levels greater than those set by EPA.

Finally, the EDB episode should not be viewed as an exception that won't be repeated. EPA now is reviewing approximately 300 food use chemicals and the thousands or tolerances related to these uses. As decisions are reached by EPA, there should be assurance that major disruptions in food production and marketing will not occur.

A National Uniformity requirement for pesticide residues in food would avoid such disruption in agricultural and food production while affording a high standard of protection to the health and safety of consumers. As we visualize it, legislation should be sharply focused on residue tolerances:

It should preclude any state or locality from establishing or enforcing any standards for pesticide residues in food if such standard is within the scope of federal law and if the state or local standard is in addition to or different from federal law.

It should also authorize states to petition the federal government to adopt standards for pesticide residues in food.

It should permit state and local governments to petition the federal government for an exemption from any federal standard based upon specific criteria including a showing of compelling or unique local circumstances.

It is important to emphasize that such a national uniformity requirement would not affect the rights of states to regulate the use of pesticides as they currently do. It should not pertain in any way to the registration of pesticides nor should it pertain in any way to the application of pesticides. The law with respect to registration and application should remain unchanged by this measure. All that would be covered is tolerance levels pertaining to pesticide residues in food.

We believe the development and promulgation of safety standards for pesticide residues in food nationally produced and marketed is properly a matter for the federal government.

The Congressional mandate to regulate the chemical use on raw agricultural commodities is national in scope. EPA and FDA must decide what is "safe". In addition, they must make decisions which are in the national interest—not in the interest of a particular state or region; not in the interest of an individual manufacturer or a specific process; not in the interest of either business or other special interest groups. Their responsibility is to serve the best interests of consumers throughout the nation.

Food production, distribution and manufacturing are a truly national undertaking. According to the USDA, in 1983, 47 of the 50 states produced principal crops valued at over $68 billion. Twenty-five percent of this agricultural produce moved to the export market. A significant portion of the remaining seventy-five percent: the wheat from Kansas, and the plain states; the corn from Iowa, Illinois, Indiana; the vegetables from California, Florida, Texas and Michigan; and the fruit from Oregon, Washington and New York, was transported to more than 21,000 domestic food manufacturers and processors. In 1980, for example, these companies processed and sold domestically and abroad more than 338 billion package units for food valued at $245.6 billion.

These hundreds of billions of food items have an important component in common—their wholesomeness and safety are evaluated, regulated and closely monitored by the federal government. For manufacturers to supply safe, wholesome food, as reasonable price levels to consumers across the country, EPA and FDA must be able to establish and enforce a single safety standard for pesticide residues that are found in food.

The explanatory statement we are submitting to the Committee describes the legislative and regulatory history relating to the control of pesticide residues, and also includes a description of a legislative approach.

In concluding, we would like the Committee to know that other groups are supportive of national uniformity. The Administrative Conference of the U.S. in December of 1984 issued a report and recommended that Congress and the Federal agencies directly address the problem of national uniformity in order to protect nationwide interests. The Association of Food and Drug officials at its meeting in June 1984 adopted a recommendation from a special committee on uniformity to develop specific areas of regulation where national uniformity requirements would be endorsed, including pesticide residues. Finally, we have received support from a number of state food and agricultural organizations for a national uniformity requirement for pesticide residues.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions from the Committee.

EXPLANATORY STATEMENT ON THE NEED FOR NATIONAL UNIFORMITY IN THE REGULATION OF THE SAFETY OF PESTICIDES IN OR ON FOOD

National uniformity is essential in the regulation of the safety of pesticides in or on food in order to permit national production and marketing of all food products without jurisdictional barriers.

BACKGROUND

Virtually every State has one or more laws regulating the safety of pesticides in or on food, and repeated attempts to achieve national uniformity in the enforcement of these laws have been unsuccessful. Pesticides are of critical importance to food production in this country, and our nationwide food production and marketing system depends upon uniformity in their regulation.

The growth of State and Local laws. In the early days of this country, food was consumed where it was grown. As urban cities began to develop in the 1800s, local food markets were established to fill the need. Town ordinances were adopted to regulate the food supply in those days. As our cities grew larger, and food distribution expanded, County laws were established to regulate the food supply as well. By the mid-1800s, States were also enacting regulatory laws in this area. Because food production and distribution was still primarily a local or regional matter throughout the 1800s, however, there was no Federal law establishing a nationwide food safety policy until after 1900.

The enactment of Federal laws. Shortly after 1900, Congress enacted two laws to regulate pesticides in food: the Food and Drugs Act of 1906, and the Insecticides Act of 1910. Because of the narrow interpretation of the Commerce Clause by the Supreme Court at that time, however, both statutes were very limited in their jurisdiction. Food produced and distributed locally was not covered. Supreme Court decisions during the early 1900s therefore ruled that these Federal laws did not preclude different requirements in State and Local laws.

Both of these early Federal laws were subsequently replaced by more modern laws that regulate vitually every aspect of the safety of pesticides in food: the Federal Food, Drug, and Cosmetic Act of 1938 and the Federal Insecticide, Fungicide, and Rodenticide Act of 1947, both of which have since been amended numerous times. By the time these laws were enacted, however, it was too late for them to serve as a model for State and Local legislation or to make enactment of State and Local legislation unnecessary in this area. The tradition of State and Local laws regulating the safety of pesticides in food was already well-established and has continued to this day.

The repeated failure of non-legislative attempts to achieve national uniformity. Following enactment of the Food and Drugs Act of 1906, FDA's predecessor agency, the USDA Bureau of Chemistry, made major efforts to achieve national uniformity in this area. The 1914 Annual Report of the Bureau of Chemistry reported cooperative efforts with State officials that "should very largely overcome the lack of uniformity." [1] A report on the progress achieved during the first ten years under the 1906 Act, contained in the 1917 Annual Report, related attempts to deal with "much confusion and apparent conflict between the local and Federal laws and the local and Federal administration of the laws," resulting in "extra cost, which naturally was passed on to the ultimate consumer." [2] The 1921 Annual Report similarly reflected the fact that "both officials and manufacturers complained greatly of the lack of uniformity in the exercise of food control by the Federal and State Governments:" [3] "Lack of uniformity increases the cost of doing business, and the increased cost is usually passed on to the consumer. It arises not merely from differences in the various laws but also from differences in the interpretation of the laws by the officials and the application by them of different standards to the same product in different jurisdictions." FDA has repeatedly sought to deal with this problem in the years since then.

State and Local officials have also been concerned about this problem. The Association of Food and Drug Officials (AFDO), whose membership includes regulatory officials from all of the States, was formed in 1897 for the purposes of producing uniformity in food and drug regulation and has continuously urged that principle ever since.[4] In 1941, for example, the Association's president criticized "trade barriers that forced many producers and manufacturers to live under the virtual dictatorship of localized bureaucracy" and urged State food and drug officials to "discourage the enactment of laws that make it impossible for legitimate industry of one state to engage in trade in another under conditions which are fair and equitable." [5] That year, AFDO adopted a resolution expressing "disapproval of the tendency toward the enactment of legislation which constitutes definite barriers to Commerce between the states." [6] Numerous similar resolutions have been adopted by AFDO since then.[7] Nonetheless, in 1973 the Association passed yet another resolution acknowledging, as well as disapproving, "a growing trend that * * * some States and local agencies are passing laws, regulations, or ordinances which are inconsistent with the principle of uniformity to which A.F.D.O.U.S. is committed." [8] More recently, AFDO has established still another committee to study the matter.

Numerous other national reports have reflected on, and disapproved, nonuniform laws and regulations in this area. In 1939, a USDA report on "Barriers to Internal Trade in Farm Products" found varying or inconsistent State requirements created increasingly serious barriers to national food distribution.[9] A study conducted by the Public Administration Service for FDA in 1963 on State and Local food and drug progams concluded that: "The general food and drug laws of the states fail to reveal a basic uniformity among themselves or an adequate correspondence with federal legislation. * * * Differences in laws and regulations are excessive, and many serve no useful purpose; the total body of state and local food and drug laws is a confusing and disjointed mass." [10] The National Commission on Food Marketing, established by Congress in 1964 to appraise the marketing structure of the food industry, stated that "conflicts among the profusion of State regulations * * * are a significant burden on interstate trade in food products" and concluded that: "We therefore believe that a concerted effort should be made to effect uniformity among State regulations that obstruct trade in foods across State lines." [11] The Report of the White House Conference of Food, Nutrition, and Health in 1969 similarly found that "under present Federal, State and local law, different and often inconsistent regulatory requirements * * * prevail throughout the Nation" and that these requirements: "result in artificial trade barriers the impede the orderly marketing of foods, hinder sound nutrition, raise the cost of new foods to consumers, and directly interfere with the public interest. * * * This situation cannot be justified on public health grounds, and reflects the lack of any attempt to establish and maintain a national policy on foods that reflects the interest of consumers." [12] The Report of the White House Conference therefore recommended "Uniform application of all regulatory requirements throughout the Nation, enforceable by Federal, State, and local officials."

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[1] 1914 Annual Report at 1, reprinted in Food Law Institute, *Federal Food, Drug, and Cosmetic Law Administrative Reports, 1907-1949* 321 (1951).

[2] 1917 Annual Report at 12-13, id. at 366-367.

[3] 1921 Annual Report at 7, id. at 459.

[4] W.F. Reindollar, *The Association of Food and Drug Officials*, 6 Food Drug Cosm. L.J. 52 (1951).

[5] 5 AFDOUS Quart. Bull. 2 (1941).

[6] 5 AFDOUS Quart. Bull. 8 (1941).

[7] E.g., 4 AFDOUS Quart. Bull. 3-4 (1940); 31 AFDOUS Quart. Bull. (Proceedings Issue) 73 (1967); 33 AFDOUS Quart. Bull. (Proceedings Issue) 46-47 (1969).

[8] 37 AFDOUS Quart. Bull. (Proceedings Issue) 19 (1973).

[9] USDA, *Barriers to Internal Trade in Farm Products* (1939).

Congress has also recognized the unproductive burden that inconsistent State requirements impose upon farmers, food processors, and consumers. The 1906 House Report on the legislation that ultimately became the Food and Drugs Act of 1906 stated that:

> "the laws and regulations of the different States are diverse, confusing, and often contradictory. What one State now requires the adjoining State may forbid. Our food products are not raised principally in the States of their consumption.
>
> State boundary lines are unknown in our commerce, except by reason of local regulations and laws, such as State pure-food laws. It is desirable, as far as possible, that the commerce between the States be unhindered." [13]

When Congress considered enactment of a new national food and drug law in the 1930s, the 1935 Senate Report on that legislation, which ultimately became the Federal Food, Drug, and Cosmetic Act of 1938, acknowledged the "problem of uniformity" and stated that the "States have unanimously urged the Federal Government to take leadership in modernizing existing law." [14] Neither the 1906 Act nor the 1938 Act expressly required national uniformity, however, and such uniformity has therefore not been achieved.

None of these non-legislative attempts have brought the country closer to national uniformity in the regulation of the safety of pesticide in foods. It is apparent that non-legislative approaches have repeatedly failed and will continue to fail in the future.

The importance of pesticides to food production. Pesticides make a major contribution to a plentiful and wholesome food supply by protecting it from insect destruction and insect-carried disease. USDA has estimated that losses due to pests, insects, and disease run as high as 40 percent in some countries.[15] The National Academy of Sciences has stated that, in the United States, insect control annually prevents about $6.5 billion in agriculture losses.[16] Pesticides thus increase farm income, reduce inflation in food costs, and permit American families to spend less of their income on food.

The critical need for uniformity in a nationwide food production and marketing system. Although food production and marketing began as an entirely local matter in the early 1800s, the United States has now become one large nationwide food market. Pesticides are used in food production throughout the country, and that food is in turn distributed in every State throughout the nation. Local and even regional markets have disappeared.

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[10] Public Administration Service, A Study of State and Local Food and Drug Programs 8 (1965).

[11] Food From Farmer to Consumer: Report of the National Commission of Food Marketing 112 (1966).

[12] Report of the White House Conference on Food, Nutrition and Health 117, 124–125 (1969).

[13] H. R. Rep. No. 2118, 59th Cong., 1st Sess. 5–6 (1906).

[14] S. Rep. No. 361, 74th Cong., 1st Sess. 3 (1935).

[15] Council for Agricultural Science and Technology, *Impact of Government Regulation on the Development of Chemical Pesticides for Agriculture and Forestry*, Rep. No. 87 (January 1981).

[16] National Academy of Sciences, *Regulating Pesticides* 18 (1980).

Nonuniform laws, regulations, and other requirements have a direct and immediate impact upon food production. Conflicting tolerances for pesticides in or on food, or different labeling requirements, discourage food processors from using the food, confuse and scare food retailers and consumers, add substantial cost to the distribution and marketing of food, and thus disrupt farm markets and reduce farm income. Uniform national regulation of the safety of pesticides in or on food is essential to a sound national agricultural program.

Inconsistent determinations, or additional regulatory requirements, result in an enormous economic burden upon consumers, for no public health benefits. Taxpayers should support a single uniform safety determination, not duplicative determinations in every State throughout the country. Conflicting or additional regulatory requirements in different jurisdictions require the food industry to pay more for compliance, disrupt normal marketing practices, and thus increase food prices to consumers.

Citizens who live in one part of the country are no less entitled to protection than those who live in another. Our citizens also travel widely throughout the country, and are entitled to the same protection in every State they visit. Determinations about the safety of pesticides in or on food must therefore be consistent in every jurisdiction in this country.

State and Local enforcement of uniform requirements for the safety of pesticides in or on food will enhance a safe food supply throughout the country and thus increase consumer protection. Deploying State and Local resources away from duplicative and conflicting safety determinations, and into enforcement of uniform national regulatory policies, represents the wisest expenditure of public funds.

In an article published in 1983, the Counsel to the Vice President stated that President Reagan's New Federalism initiative, which is designed to encourage greater responsibility at the State and Local level, includes: "recognition that state and local administration of regulatory programs may conflict in some instances with other goals of regulatory relief or with other important federal interests. For example, individual states may operate specific programs more effectively than the federal government, but the combined effect of disparate state regulatory standards may intolerably burden interstate commerce, thus requiring uniform federal regulation."[17] Recognizing "the need for a strong central government to promote commerce and other federal interests," he distinguished between those matters that are primarily local in nature and those that involve such "burdens on interstate commerce" that national uniformity is required.

As recently as December 1984, the Administrative Conference of the United States issued a report and recommendation that echoed these principles.[18] While recognizing that "state governments are normally in a better position than the federal government to determine the types of regulations that will serve the interest of the states' citizens," the report also found that "States sometimes have an incentive, however, to impose regulations that advance state interests at the expense of other states' interests or of national interests." The report concluded that, because of the limited "checks on state regulation that harms the national interest:" "states possess, in practice, the power to make regulatory choices that produce net benefits within the state but that produce substantial net detriments on a national level. Without an additional federal constraint on state regulatory power, states can be expected to regulate in this manner frequently." The Administrative Conference therefore recommended that Congress and the Federal agencies directly address the problem of national uniformity in regulatory policies in order to protect nationwide interests.

PRINCIPLES THAT SHOULD BE REFLECTED IN LEGISLATION TO ESTABLISH NATIONAL UNIFORMITY IN THE REGULATION OF THE SAFETY OF PESTICIDES IN OR ON FOOD

National uniformity legislation is needed to reflect the intent of Congress to assure a safe and reasonably priced food supply for consumers. Such legislation would protect the interests of food producers, food distributors, and food consumers alike.

The purpose of the legislation. National uniformity legislation should be designed to assure uniformity in both safety determinations and the resulting regulatory requirements and prohibitions involved in the regulation of the safety of pesticides in or on food. Federal laws, regulations, and interpretations should be controlling throughout the country. State and Local officials should enforce these Federal determinations, thus assuring more widespread, complete, and thorough application of these uniform determinations. To made certain that any local needs are not overlooked, however, the legislation should also provide for exemptions from the general rule of national uniformity where they are justified.

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[17] C.B. Gray, *Regulation and Federalism,* 1 Yale J. Reg. 93, 95–96 (1983).

[18] 49 Fed. Reg. 49838 (December 24, 1984).

The coverage of the legislation. The legislation should provide for national uniformity in the regulation of the safety of pesticides in or on food under two federal statutes: the Federal Food, Drug, and Cosmetic Act and the Federal Insecticide, Fungicide, and Rodenticide Act. Under these statutes, EPA registers pesticides, establishes tolerances for residues in or on raw agricultural commodities of a pesticide registered for use with those commodities, and promulgates food additive regulations for residues in processed food made from the raw agricultural commodities for which a pesticide has been registered. FDA establishes concern levels, action levels, and tolerances for pesticide residues for which EPA has not taken appropriate action under its authority, establishes all requirements for food labeling related to the safety of pesticides, and enforces both EPA and FDA pesticide requirements as they relate to food products. Taken together, these Federal statutes authorize EPA and FDA to regulate every aspect of the safety of pesticides in or on food.

The types of regulatory decisions included. The legislation should apply to both formal and informal regulatory decisions made by EPA and FDA within the scope of the two Federal statutes involved. These include decisions made under the two statutes in the form of regulations and interpretations. EPA and FDA decisions relating to the safety of pesticides in or on food may, for example, be announced through formal regulations or through informal speeches, press releases, letters, and personal discussion. Such decisions may come in the form of specific regulatory requirements or prohibitions, or in the form of conclusions that no action is justified. Informal decisions are often as important as formal decisions. The legislation should therefore apply equally to whatever type of regulatory action or inaction is involved.

The regulatory decisions that should be included under the legislation may be in the form of a requirement or prohibition or a decision not to take regulatory action. For example, EPA and FDA may impose limits on residues, a requirement for information to appear on product labels, or posters in stores or restaurants, or may decide any or all of these are not warranted. All of these types of regulatory decisions should be included within the legislation.

The legislation should not, however, cover regulatory decisions relating to the safety of pesticides other that in or on food. Thus, the legislation should not relate to the registration or application of pesticides. It should not in any way cover the safety of workers who manufacture pesticides or the safety of workers who are applying pesticides to foods or who are in the vicinity when pesticides are applied to food.

Federal-State cooperation. The legislation should explicitly provide that State and Local officials may exercise concurrent jurisdiction with EPA and FDA to enforce requirements or prohibitions identical with those established under Federal law. Such State and Local enforcement would greatly strengthen consumer protection. To facilitate uniform national regulation, the legislation should require EPA and FDA to cooperate with State and Local officials by entering into contracts for enforcement activities. These requirements would reflect a longstanding joint commitment of Federal and State officials to uniform national enforcement of regulatory requirements and prohibitions relating to the safety of pesticides in or on food.

Adoption of State requirements as Federal requirements. The legislation should reflect the fact that State and Local governments, with long experience in the regulation of pesticides in food, may well have useful suggestions for improving EPA and FDA implementation of the Federal statutes regulating the safety of pesticides in or on food. Any State or Local government could petition EPA or FDa to adopt by regulation, as a Federal requirement or prohibition, an existing or proposed State or Local requirement or prohibition. Within 180 days after receipt of any such petition, EPA or FDA should be required to respond and specify the action that is being taken on it. This would assure State and Local officials that their voices will be heard, and would require EPA and FDA to review and take action upon any State or Local suggestion. In this way, the experience of State and Local officials would be directly reflected in Federal decisions.

Exemptions for State and Local governments. Although, as a general rule, requirements and prohibitions involving the safety of pesticides in or on food should be uniform throughout the country, there may be some situations where exceptions are justified on a local basis. The legislation should therefore specifically allow State or

Local governments to petition EPA and FDA for an exemption from the general rule of national uniformity. The Federal agency involved could promulgate a regulation granting such an exemption, after notice and opportunity for an oral hearing, under whatever conditions are appropriate to protect Federal interests.

To justify such an exemption, the State or Local government should be required to demonstrate either that there are compelling and unique local conditions that do not exist elsewhere in the United States, or that the subject matter involved is primarily local in nature and the Federal agencies are not exercising jurisdiction over it. In both cases, the exemption should be required to be further justified by a showing that the State or Local requirement or prohibition protects an important public interest, would not cause any food to be in violation of Federal law, and would not unduly burden interstate commerce. Under these circumstances, a State or Local government would be permitted, through the exemption, to impose its own nonuniform requirement or prohibition that is in addition to or different from the Federal requirements and prohibitions, but no other jurisdiction could do so without obtaining its own exemption.

A State and Local advisory committee. Because a truly effective uniform national implementation of all laws regulating the safety of pesticides in or on food depends upon strong State and Local cooperation, the legislation should provide for the establishment by EPA and FDA of an advisory committee comprised of five State and Local officials engaged in this area of regulation. This advisory committee should be charged with assuring that State and Local interests are fully protected and considered in EPA and FDA decisions relating to the safety of pesticides in or on food. It would be responsible for coordinating the views of all State and Local officials working in this area, for presentation to EPA and FDA, and in turn disseminating important information from EPA and FDA to State and Local governments. In this way, communication and coordination would be substantially improved and more effective enforcement of the law would be fostered throughout the country.

GRAND FORKS CHAMBER OF COMMERCE,
Grand Forks, ND, April 18, 1985.

SENATE AGRICULTURE COMMITTEE,
328A Russell Senate Office Building, Washington, DC.

DEAR SENATOR: Thank you for considering our policy position and allowing us the time to testify at this hearing today. Your time and consideration is sincerely appreciated.

Please find enclosed the policy position on the 1985 Farm Bill that the Grand Forks Chamber of Commerce and its Agri-Business Committee has adopted effective April 16, 1985.

This formal written policy is a result of a special forum of Chambers of Commerce from the Red River Valley in North Dakota and Minnesota as well as the Greater North Dakota Association. Various commodity groups also participated representing wheat, soybeans, durum, sugarbeets, sunflowers, potatoes and specialty crop growers.

The forum was an attempt to identify problems facing agriculture and to offer alternative suggestions so as to help Congress deal with the farm crisis.

If you have any questions, please feel free to contact the Grand Forks Chamber of Commerce office at 202 North Third Street, P.O. Box 1177, Grand Forks, ND 52806-1177 or call 701-772-7271.

Again, thank you for considering our proposals and for affording us the time to testify today.

Sincerely,

LOWELL FLATT,
Representing the Grand Forks, ND, Chamber of Commerce.

EXPLANATION

The Grand Forks North Dakota Chamber of Commerce is an organization consisting of over 700 member businesses which serve the Central Red River Valley of the North.

The Agri-Business Committee of the Grand Forks Chamber of Commerce sponsored a "Farm Policy Forum" on April 9, 1985 at which time representatives of six other Chambers of Commerce and ten agricultural commodity organizations met to develop a public statement on the issue of farm and international trade policies of the United States Government.

Those organizations participating in this forum included: Grand Forks, ND, Chamber of Commerce; East Grand Forks, MN, Chamber of Commerce; Fargo, ND, Chamber of Commerce; Moorhead, MN, Chamber of Commerce; Devils Lake, ND, Chamber of Commerce; Thief River Falls, MN, Chamber of Commerce; Greater North Dakota Association; and North Dakota Soybean Growers Association, American Soybean Growers Association, Red River Valley Potato Growers Association, U.S. Durum Growers Association, North Dakota Wheat Producers, Inc., Minnesota Wheat Growers Association, North Dakota Wheat Commission, Red River Valley Sugarbeet Growers Association, National Sunflower Association, Minndak Growers Association.

PREAMBLE

Few industries touch as many American citizens as does agriculture. Not only does American agriculture provide the highest quality food in the world, but does so at the lowest cost of any nation in the world.

While many people and organizations have pointed out to the Congress and Administration that economic problems exist in agriculture, not all agree on their solution.

It is not the purpose of these organization representatives to provide an overall solution to the present problems, but instead to provide some suggestions as to how nearby and long range economic health might be restored to this segment of our nation's economy.

We recognize that the economic problems which are faced by farmers are not just farm problems. They are local business problems, national manufacturing problems, financial institution problems and most of all an international trade problem for America.

We have taken a positive position when considering the problems and their possible solutions. It is the intention to make recommendations which will strengthen not only the agriculture economy but the overall economy of America.

Both the Congress and the Administration must understand that without a strong agriculture we cannot have a strong national economy. History has proven that to the sadness of many civilizations past.

OUTLINE OF IDENTIFIED PROBLEMS AND RECOMMENDATIONS

I. Deficit
  A. Value of the U.S. Dollar
  B. Interest Rates on Borrowed Money
  C. Condition of Farm Credit System
II. Farm Income
  A. Target Price Concept
  B. Payment Limitations
III. Marketing and Trade
  A. Cargo Preference Legislation
  B. International Trade Barriers
    1. Embargoes
    2. Trade Restrictions
  C. Subsidization of Foreign Exports
IV. Summary of Recommendations
  A. Interest Rates
  B. Exports
  C. Target Prices and Payment Limitations
  D. Cargo Preference
  E. Trade Negotiations

The Chambers of Commerce and the agriculture commodity organizations agreed in principle on a series of identified problems and recommendations for their solutions.

DEFICIT

Recognizing the intent of the Congress and the Administration to reduce the Federal Debt, we add our voice in emphasizing the urgency of dealing with this serious problem.

Agriculture is as seriously affected by this problem as any other industry, and possibly more than most. The deficit has created such a drain on the American economy that all industries have felt the economic squeeze, especially capital intensive industries such as agriculture.

It is our recommendation that every segment of America share in the belt-tightening which will be needed to reduce the federal deficit. Agriculture is willing to assume its share of the burden, but we do not want to be singled out to carry a disproportionate share.

Value of the dollar

While those who can afford to travel in foreign countries applaud the favorable exchange rates for the U.S. dollar, farmers and exporters have a far different view.

The high value of the U.S. dollar makes it uneconomical for foreign countries to purchase large quantities of American agriculture production. This has seriously damaged this country's balance-of-trade with other nations since agriculture has long been one of the only pluses in this trade balance.

Interest rates on borrowed money

Most farmers, farm finance officers, and agriculture economists agree that the single most costly item for the majority of America's farmers is interest. This has created a serious problem not only for new farmers who have entered the business in the past ten years, but for many established farmers who have found it necessary to borrow money to finance expansion or to recover from natural disasters.

We recommend that once the deficit is lowered, the competition from government in the financial market will be removed and order will be restored to the money lending institutions.

Farm credit

Our banking industry is in serious danger. Rural bank failures are increasing, leaving both the business and farm community without a source of credit. Many major regional banks have chosen to withdraw from the ag-loan sector. As a result smaller rural banks are suffering because it is often extremely difficult to find a secondary lender to handle their overlines.

There is the threat of collapse of the Farm Credit System, that comprises the Federal Land Bank and Production Credit agencies. Congress and the Administration need to recognize the severity of this situation. Falling commodity prices have contributed to sharply declining land values and the reduction of overall agricultural loan equities. As a result, the quality of loans held by the Farm Credit System has deteriorated. To say nothing about the large inventory of farms they now own. The rates they now charge to help write off bad loans are higher than they should be, which is another problem for their present customers. The collapse of the Farm Credit System would have far reaching effects on our economic system.

FARM INCOME

Target price

It is the consensus of opinion of this group that the target price concept must be retained as a "safety net" for agriculture. Safety nets are only necessary when grain prices decline to a level below the cost of production. Target prices will allow the American farmer to compete in the world market and to improve our competitiveness by clearing out burdensome stocks.

The long-range recommendations are to work toward a market oriented agriculture with a minimum of government controls and regulations. However, until government policies that have caused high interest rates and reduced exports are changed, assistance to agriculture must be continued.

Payment limitations

If any farm program is to be effective, it must have a large percentage of the producers participating. The limitations on the deficiency payments suggested by the administration would result in such poor participation as to render the program ineffective.

We recommend that the current Administration proposal to reduce the deficiency payments from the present $50,000 to $20,000 in 1986, $15,000 in 1987, and $10,000 in 1988, be rejected.

Statistics from the ASCS office in North Dakota indicate that under the $50,000 limitation, 413 farms in our state would be affected. Under the $20,000 payment limitation, 5,181 farms would be affected and under the $10,000 limitation, nearly all 40,000 farms would be affected.

In 1985, we have a target price on wheat of $4.38 and a loan rate of $3.36. If 1985 is similar to 1984, we can anticipate a $1.00 per bushel deficiency payment on wheat.

If we go to a market oriented agriculture, to market clearing loans, and this loan drops, as some have suggested, to $1.00 per bushel, then with the same target price, the deficiency payment would be $2.00 per bushel. If this is a valid conclusion, 250 acres of wheat, yielding 40 bushels per acre, times $2.00 per bushel, equals $20,000.

The impression that is given to us of the payment limitation is that this is to help the "family farmer" survive. We respectfully submit that few "family farmers" are farming less than a half section of land. The limitation in the FIRST year of the cutdown is 250 acres. If you use approximately the same wheat price figures and carry it out three years to the $10,000 payment limitation, you have 125 acres of production as the limit on deficiency payments of wheat.

If the intention is to eliminate all federal deficiency assistance, it should be done with the eyes of the Congress and the Administration wide open. Understand that with a payment limitation of $10,000, all of commercial agriculture is taken out of the program. We submit that that same commercial agriculture is the "family farmer" everyone so desperately wants to help.

MARKETING AND TRADE

Cargo preference

Fully one-third of American agriculture production is available for export. Without a strong export program, the farm economy would suffer even during fairly good economic times.

The artificial inflation of export costs created by requirements to ship half of American grain involved in certain export programs in more expensive U.S. ships, is an unreasonable and damaging demand to place on agriculture.

We urge that if it is deemed wise to subsidize the U.S. Merchant Marine (or fleet) in the interest of national defense that the costs of such subsidies not be charged to agriculture.

We also urge that these changes to the cargo preference regulations be made at the earliest possible time.

Trade barriers

We recommend that efforts be investigated and continued to create an atmosphere in which trade barriers are equal between nations or that solutions be found in areas where barriers are discriminatory against American agriculture.

Since American agriculture is one industry which is competitive in the world market, we urge that great care be taken so that trade restrictions placed on other country's imports into the U.S. do not result in barriers that are discriminatory against American agriculture.

Embargoes

It is our recommendation that embargoes on the sale of American agriculture products be forbidden except in the event of a national emergency. Experience has taught a bitter lesson to this country because of the unwise use of embargoes in the past. Permanent damage has already been done to American export markets. It is our recommendation that no further destruction be allowed because of embargoes.

Summary of recommendations

1. High interest rates are hurting both the farm and urban economy. Government policies causing these high interest rates must be changed.
2. The target price must be retained and deficiency price limitations should be kept at a minimum of $50,000.
3. A strong export program is needed. Factors such as the cargo preference and improper trade restrictions must be addressed.

APRIL 24 HEARING—RURAL CREDIT ISSUES

Statement of Hon. Edward Zorinsky, a U.S. Senator From Nebraska

Mr. Chairman, America's family farmers are fighting for their economic survival. According to the Department of Agriculture, about 378,000 farmers have debt-to-asset ratios that indicate severe financial stress.

The farm credit crisis is a tragedy of staggering proportions. On Monday of this week, there was a story on the front page of the New York Times describing how farmers—who are good managers and who are currently meeting their loan payments—are losing thousands of dollars invested in failed production credit assiciations in Nebraska and other states.

In Nebraska, the agricultural depression is affecting the entire economy. School districts are being deprived of property tax revenues, many banks and farm credit system lenders are failing because of uncollectable farm loans, and rural utilities are concerned about the ability of farmers to pay their utility bills.

The administration's response to the farm credit crisis has been inadequate.

Last Fall—just before the election—the administration announced a "debt adjustment program" designed to help farmers reeling from low prices, high interest rates, and record crop surpluses. At that time, we were told the debt adjustment program was a workable program and many from farm states hailed the administration's plan as the answer to their prayers.

Early this year, after much criticism of that program, the administration announced some relatively minor changes in the debt adjustment program. We were told that those changes would make the program workable. When the President vetoed the emergency farm credit legislation that I sponsored, we were told that it wasn't needed because a workable program was in place.

However, there is much evidence that the administration's emergency credit assistance program is not working and farmers are not receiving the assistance promised by the administration.

For example, as of April 15, only 129 loan guarantees have been issued under the debt adjustment program. In addition—despite the administration's commitment to provide as much loan guarantee authority as needed—many states have used all of the farm real estate loan guarantee authority made available from the original $50 million provided by Congress.

Senators Boren and Exon have joined me in sending a letter to the President asking him to transfer additional loan guarantee authority to the real estate loan program and thereby make good on the administration's promise to our farmers.

This week, the Senate will be considering a budget proposal that will have a long-term effect on our agricultural industry.

There are many aspects about the so-called "rose garden" budget compromise that I cannot endorse. However, the documentation accompanying that compromise correctly notes that the 1981 farm bill—legislation endorsed by the administration—was, and I quote, "the most expensive in history . . . and produced the worst results: virtual depression conditions in much of the U.S. agriculture," end of quote.

Only a few weeks ago, the administration sent up its version of a 1985 farm bill. Secretary Block testified that—under the administration's proposal—farm income would be reduced during the next two years. It is reported in the media that this original proposal is being dropped by the administration because it is too harmful to farmers.

Now, key elements of a revised administration farm bill appear to be included as part of the rose garden budget plan. We will be asked to approve the agriculture part of that budget without the benefit of knowing how it will affect farm income and with no assurance that if that plan is enacted it will end the depression in the farm economy.

I do not believe Congress or the administration would approve a defense budget or a foreign aid budget without knowing whether the funding levels provided were adequate to achieve specified objectives.

Through this hearing, I hope we can learn what the credit crisis will lead to if Congress and the administration fail to approve a farm bill that will make it possible for farmers to make a profit. If we fail to approve such a bill, I believe the consequences could be most harsh—not only for farmers—but also for the entire economy.

I look forward to reviewing the testimony of today's witnesses.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I am pleased that you have called this hearing on the urgent matter of rural credit.

In the past several months, this has been of particular concern to this Senator and many of my colleagues in both the House and Senate. As we all know, short-term solutions will not resolve the problem of the debt load held by our farmers.

It is my hope that this hearing is a first step toward formulating some long-term solutions to the rural credit problem. With all our work on the 1985 Farm Bill, I believe that we can come to some agreement about how to save our family farm.

Thank you, Mr. Chairman.

STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

Many of the rural credit programs we'll hear more about today have been vitally important to Kentuckians over the years. For example, REA has provided literally millions of dollars in loans for telephone and electric service to rural Kentucky, loans that provided affordable phone and light service to thousands of our people. FmHA water and sewer loans and grants have also markedly raised the standard of living for our citizens.

I particularly look forward to the testimony of William Duncan of Berea, Kentucky. Bill has been a mover and a shaker in this area for a number of years and is well respected all over the state of Kentucky for his depth of knowledge regarding safe drinking water conditions. I certainly welcome my constituent to these hearings, because I'm sure what he has to say will be a big help to all of us when we begin to wrestle with this budget issue.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM ARKANSAS

I wish to thank the Committee for giving me the opportunity to testify here today. It is my intention to testify on S. 382, a bill I introduced that will reform eligibility criteria for water and waste facility grants administered by the FmHA, and on the farm credit proposals advanced by the Administration and the Senate leadership.

On February 8, I introduced S. 382, a bill that had two major provisions: 1) establishing of the median household income level threshold for water and waste facility grant eligibility at no less than the poverty level, and 2) giving of discretion to the FmHA to make grant funds available to projects proposed to serve areas declared by state officials as facing a health emergency due to the contamination of ground water supplies even if the median income surpassed the threshold. My bill was intended to address two specific problems facing Arkansas, but I have been surprised by the response of other Senators who saw my bill as a vehicle to solve critical problems in other states.

I am pleased to note that the FmHA on April 2 unilaterally adopted regulations that implemented the first provision of my bill. Four states—Arkansas, Mississippi, Alabama, and Missouri—no longer face the inequity of having an eligibility threshold which was actually below the poverty level.

The second provision was intended to benefit residents just outside the City of Green Forest, Arkansas, who suffered irreversible contamination of their groundwater supplies, but were initially ineligible for FmHA grant assistance because census data concluded that the median household income of the area was too high. Without the availability of grant funds, the establishment of a water system was not feasible, and it appeared that many innocent residents would have to either abandon their homes or truck in all their daily water supply. Fortunately for the residents in the contamination zone, they were able to prove the census figures to be inaccurate, and last night the signing of the letter of Conditions for the establishment of a new water system was approved by the City of Green Forest.

However, the fact still remains that the FmHA has no flexibility to offer grant assistance even in severe health emergencies if the affected area's income level exceeds the household median income guidelines established by the Secretary. Although the residents outside Green Forest within the groundwater contamination zone may no longer need such a bill, I already know of possible need in other communities in Arkansas and in several other states. I understand that Senator Stennis has a similar situation in Mississippi that has not been resolved. I urge the Committee to act favorably on my bill.

I also wish to comment on agricultural credit problems facing our farmers this fiscal year and on the Administration's credit proposals for FY 86. Arkansas, Iowa, Oklahoma, and other states are now facing a severe problem with the shutting down of guaranteed farm ownership loan (FO) authority. For the past several months the Administration has promoted the use of guaranteed loans instead of insured (direct) loans, and has promised that adequate guarantees would be made available. The USDA now contends that only guaranteed operating loans were promised, but that is not my recollection. In Arkansas, a few conventional lenders were beginning to seek the FO and OL guarantees, and just when many loans reached the point of obligation, the guarantee authority was exhausted and the USDA has vowed to make no other money availabe. I should note here that the overwhelming use of the FO funds is for refinancing existing loans—the only FmHA loan that can be used for such purposes—not for land purchase.

The obstinance of the USDA has worked a great hardship on dozens of Arkansas farmers. Instead of using some of the largely unused $650 million made available for the "Debt Adjustment Program" for conventional lenders, the USDA has chosen to turn a blind eye. I seek my colleagues' assistance in getting the USDA to free adequate guaranteed FO funds.

As for the President's proposal to immediately redirect all FmHA direct loan assistance to the guaranteed program ($3 billion for guaranteed loans and $400 million for direct OL loans) and the Republican compromise plan to phase out direct loans over five years, I must state that such a move will essentially eliminate 1/4 of the farmers in my state. Currently, 40 percent of all Arkansas farmers have some sort of loan with the USDA and 25 percent get their operating loans from the USDA. In Arkansas alone over $70 million is borrowed each year for operating expenses in direct OL loans while only a handful of guaranteed OL loans are made each year. ($1.7 million in FY 84 for 13 loans compared to over 2,100 direct loans for over $80 million). If the direct loan program is eliminated outright or phased out, these Arkansas farmers who borrow directly from the FmHA are out of luck. Currently, FmHA regulations require that a farmer be turned down by a conventional or cooperative lender in order to show that the FmHA is the lender of last resort. Under a guaranteed program we will now be asking these farmers to go back to these lenders who just rejected them and ask for a loan with a federal guarantee of 90 percent or less.

The guarantee program has historically been less than a success. The debt adjustment guaranteed program has been a bust, either by design or action, and lenders in my state just aren't interested in the guaranteed program. Many banks have (1) gotten out of agriculture loans and have no intention of getting back in, (2) won't touch guarantees, because even if guaranteed the lender must foreclose before it can move against the guarantee, and (3) the variable rate loan only allows the interest rate to move downward, not up. If the rate is fixed, few rural banks are interested even if they could sell loans on the secondary market.

I would like to close by stating my strong opposition to proposals which would charge a user fee on Farm Credit System funding to begin in fiscal year 1986. This user fee of 5 basis points, to be raised to 8.3 basis points by fiscal year 1987, is simply a penalty to be levied for the special agency status relationship FCS has with the government. The user fee is proposed to be levied against the outstanding debt balance at the end of each year, and according to the OMB, it will net the government $80 million by fiscal year 1988 and according to the FCS it will cost $125 million by fiscal year 1987.

As stated, this uses fee is simply a penalty. It does not reimburse the government for services rendered, and it adds a cost that will be passed on to our farmers—a group that hardly needs to be saddled with any higher interest costs. Currently, all expenses of the FCS, including the regulation expenses of the Farm Credit Administration, are paid by the FCS at no cost to the Treasury. There is no benefit to effectively removing agency status by charging a user fee.

I urge my colleagues to reject the proposals to eliminate the direct FmHA loan program and to impose user fees on the Farm Credit System. We all agree that we must reduce the deficit and the federal agriculture credit programs will have to be included in any budget debates. However, I believe we will be penny-wise and pound-foolish if we adopt the Administration's or leadership's credit proposals.

STATEMENT OF FRANK W. NAYLOR, JR., UNDER SECRETARY OF AGRICULTURE FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

I appreciate the opportunity to be with you today to discuss the activities of the Farmers Home Administration in light of today's farm credit situation.

Currently, about 264,000 farmers and ranchers hold loans of one type or another with us. Farm operating, farm ownership and emergency loans make up by far a majority of our farm loan portfolio, which now totals about $25.5 billion.

Farmers Home provides about 12 percent of the nation's agricultural credit. Our borrowers have been undergoing the same stresses that other farmers have been experiencing in a time of low profitability. In fact, our borrowers were among the first to face those problems because of their relatively higher vulnerability to financial pressures.

In recognition of those economic forces beyond the control of the Farmers Home borrowers, Secretary Block took the first steps more than three years ago in adopting a policy based on forbearance, patience and understanding.

He said that we would stay with those farm borrowers who had tried, in good faith, to keep up payments but could not because of circumstances beyond their control, had taken care of security property, had followed sound management practices, and had prospects of repaying a new operating loan out of the current year's production.

In some cases, this meant carrying existing loans in a delinquent status while allowing the farmer additional time to restore a degree of financial stability to the operation.

At the same time that Secretary Block issued these policy directives, he undertook to strengthen the relationship between the Government and the commercial lenders in the private markets. Informal discussions with the major banking organizations and the Farm Credit System developed into a strong, working relationship that produced immediate and measurable results.

For example, the practice of subordinating Farmers Home's lien position on a loan by a commercial lender greatly expands the lending "reach " of both. From a yearly average of about 5,000, the number of subordinations jumped to 30,000 in fiscal year 1982 and has gone beyond 30,000 in each fiscal year since.

Mr. Chairman, those farmers simply would not have been able to continue in business without that extra assistance.

Another specific result of that cooperative working relationship with the commercial lenders was the development of the approved lender program during 1983 and early 1984. Under that plan, commercial lenders can be certified, in advance, as qualified to handle Farmers Home guaranteed loans, greatly simplifying and speeding up the processing of those loans.

Just last month, we made some adjustments in the program to make it possible for most of the institutions of the Farm Credit System and many more commercial banks to participate.

Those are some of the early and continuing efforts of this Administration to address the credit needs of that 12 percent of the nation's farmers served by the Farmers Home Administration.

Now let me briefly review the more recent steps taken as the farm credit situation worsened as a result of a world-wide recession and declining land values following a successful attempt to reduce the rate of inflation.

Last September, President Reagan announced a series of initiatives to help farmers undergoing financial stress, both those with loans from Farmers Home and those doing business with private lenders.

If a positive cash flow could be achieved:

Farmers Home borrowers could have either 25 percent or $200,000 (whichever is less) of their FmHA set aside for five years without interest.

Farmers Home would guarantee a new note for other borrowers whose loans were classified as problem loans if their lenders agreed to write off a minimum of 10 percent of their debt.

Farm financial and management counseling services would be made available, through contracts, at the county office level.

Based upon actual experience and recommendations from the banking community, some adjustments were made in the original program. The reduction of the non-FmHA borrower's debt can now be achieved through a lowering of the interest rate or a write-down of the existing debt (principal and accrued interest), or a combination of both, at the option of the borrower and lender. A 10-percent contingency originally included in the cash flow requirement for the guaranteed loans has been eliminated.

And, as I just mentioned, the approved lender program was adjusted to allow, and encourage, the participation of hundreds of additional lenders.

Where do we stand today? Since this fiscal year began Oct. 1:

More than 9,200 Farmers Home borrowers have had part of their debt set aside for five years.

More than 48,600 others have had their loans rescheduled or reamortized, deferred or subordinated to other lenders.

One hundred and twenty nine new guarantees for $19.5 million have been approved after restructuring. Regular guarantees outside the restructuring program total more than 2,500 for operating and ownership loans.

Almost 800 contracts for counseling services have been approved.

Hiring of temporary employees and agreements with other USDA agencies have resulted in more than 2,000 additional personnel becoming available to help in loan processing.

The creation of 20 five-person "farm credit crisis teams" permits us to send a team into a community immediately after the Federal Deposit Insurance Corporation notifies us of a bank failure. Team leaders are authorized to issue notices of intent to guarantee 1985 crop loans for eligible farmers whose loans were held by the failed bank. Twelve teams have been dispatched, so far, to seven states.

More than $3.6 billion in all types of farm loans have been obligated by the Farmers Home Administration thus far in FY 1985.

Mr. Chairman, the direct contribution of the Federal Government to the current credit needs of our farmers has been substantial. I believe we are on the right course. Secretary Block has assured all of us that adequate financial resources will be available to meet the need.

We intend to continue our efforts to be sound managers of the responsibilities assigned to us by the President in our role to help ensure the continuing economic well-being of the nation.

Thank you.

[University of Missouri, Department of Agricultural Economics, Paper #1985-13]

FARM CREDIT SITUATION: IMPLICATIONS FOR AGRICULTURAL POLICY*

(By J. Bruce Bullock**)

It is widely recognized that there is a considerable amount of financial stress in the agricultural sector. A USDA report released last week provides us with a comprehensive look at the extent and distribution of financial difficulties in U.S. agriculture.[1] The report indicates that about 18 percent of the farms in the U.S. owe 56 percent of all farm debt. These 386,000 farms are considered to be highly leveraged and have less than 40 percent equity in their farm businesses. The USDA estimates that by January 1986, about six percent of U.S. family size commercial farms will be technically insolvent (i.e., have negative net worth). They also estimate that if current economic conditions extend into the future, an additional 2.8 percent of family farms will become insolvent each year.

Simply stated, the farm financial problem is that there is more farm debt than can be repaid from farm and non farm income of those who owe the debt. High interest rates and the strong value of the dollar tend to compound the pressures created by the excess debt situation. However, high interest rates and weak export demand are not the cause of the financial problems in agriculture.

The symptoms of an excess debt situation are increasing inability of borrowers to make interest and principal payments on schedule and a subsequent increase in loan foreclosures and bankruptcies. The observed rise in loan delinquencies has occurred simultaneously with record levels of real interest rates and substantial increases in the value of the U.S. dollar. Thus, government economic policies designed to bring inflation under control have been blamed for much of the financial problems in agriculture. Unfortunately, most of the policy proposals for dealing with the farm finance situation have focused on treating the negative cash flow and loan delinquency symptoms of the excess agricultural debt problem rather than with correcting the problem itself.

Viewing high interest rates and the weak value of the dollar as causes of the current farm finance situation has prevented most observers from looking beyond these factors in their search for the cause of the farm finance problem. Examination of the USDA data clearly reveals that a substantial portion (perhaps as much as 24 percent) of the existing farm debt cannot be repaid even at zero interest rates or if farm product prices were increased by 50 percent. Consequently, the difficult question facing policy makers is how the inevitable wealth losses are to be distributed among farmers, lenders, and the government.

Four questions regarding the current farm finance situation are of interest from a public policy perspective:

1. How did we get into the current situation?
2. What is the cause (not the symptoms) of the current financial stress in U.S. agriculture?
3. What are the policy options available for dealing with the problem?
4. What are the likely impacts of these policy options?

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[1] USDA, "The Current Financial Conditions of Farmers and Farm Lenders," Economic Research Service, Agricultural Information Bulletin No. 490, March 1985.

HOW DID WE GET HERE?

The agricultural sector financed its trip to the current situation on borrowed capital. Unfortunately, repayment capacity from farm earnings never existed for a large part of the agricultural debt expansion over the past 10 years. Table 1 shows that the rate of return on farm assets was less than 5 percent throughout the 1970s when much of the increases in farm debt occurred. Moreover, the return has been less than three percent since 1980. Clearly, asset values were increasing more rapidly than farm income over this period. The current financial problems were created because debt expanded annually by the amount of increases in asset values rather than at the rate dictated by growth in repayment capacity. Moreover, this debt was borrowed at double digit interest rates while rates of return on agricultural assets were less than 5 percent.

Borrowing money against inflated asset values with inadequate earning capacity for debt repayment makes sense only if inflation continues forever, or if the assets are sold at their inflated value (and the debt repaid) prior to termination of inflation. Obviously, neither of these developments occurred. Inflation was brought under control and caused the inevitable decline in land values. Land values established in 1981 made sense only if inflation continued at levels anticipated in 1981.

TABLE 1.—KEY INDICATORS OF CHANGES IN ECONOMIC HEALTH OF U.S. AGRICULTURAL SECTOR

	Net farm income bill (dollars)	Value of farm assets bill (dollars)	Farm debt bill	Incomes as percent of asset value	Debt asset ratio	Farm debt divided by net farm income
1940–49	$11.8	$90.3	$9.45	13.1	0.11	0.80
1950–59	12.8	171.5	17.3	7.5	.10	1.35
1960–69	12.4	247.4	36.7	5.0	.15	2.96
1970–79	23.6	521.9	83.7	4.5	.16	3.55
1980	21.2	1,005.5	159	2.1	.15	7.50
1981	31.0	1,089.8	175	2.8	.16	5.65
1982	22.3	1,083.5	202	2.1	.19	9.05
1983	16.1	1,045.2	216	1.5	.21	13.42
1984[1]	31	1,031.1	215	3.0	.21	6.94
1985[2]	22	NA	217			9.87

[1] Preliminary.

[2] Forecast.

The decline in land values has had the obvious impact of consuming farmers' equity and hence their lenders' margin of collateral. Consequently, the debt/asset ratios of farm borrowers have increased and the quality (as measured by collateral margin) of the lenders' agricultural loan portfolio has declined.

However, the decline in land values has had no impact on the debt repayment capacity of the agricultural sector. Declining land values have simply removed the artificial impression of financial well being that both farmers and their lenders had been operating under for the past 10 years. Without the umbrella of inflation driven increases in land values to collateralize expanded debt to cover cash flow shortages, the agricultural sector is faced with rising deliquency rates on farm loans and increasing numbers of loan foreclosures and bankruptcies.

WHAT IS THE CAUSE OF THE CURRENT FINANCIAL STRESS?

The data in Table 1 indicate that excess debt is the cause of the current financial stress in agriculture. Excess debt refers to debt that cannot be repaid from income generated by the asset purchased with borrowed capital. However, not everyone is convinced that excess debt is the problem. Some argue that high interest rates are the culprit.

The data in Tables 2 and 3 clearly demonstrate that the magnitude of farm debt swamps the impact of "high" interest rates for most farms experiencing financial stress. Note that reducing interest rates 50 percent (100 percent in some cases) would not eliminate the cash shortfall of farms with excess debt. It is also clear from the data in

Tables 2 and 3 that proposals to provide up to $3,000 or $4,000 in interest rate relief funds for farmers with debt problems are at best token efforts. Cash payments averaging at least $20,000 per farmer are required to eliminate the cash short falls of the farmers under financial stress. Moreover, these payments would have to be made annually for several years into the future since no improvement in farm cash receipts is anticipated.

TABLE 2.—AVERAGE DEBT SERVICE OBLIGATIONS AND CASH SURPLUS (SHORTFALL) FOR FARMS WITH DEBTS EXCEEDING 70 PERCENT OF ASSET VALUES 1983

Sales class ($1,000)	Principal payment	Interest payment	Cash surplus (shortfall)
>$500	$59,671	$119,674	($56,456)
$250 to $499.9	26,348	61,691	(5,510)
$100 to $249.9	15,905	29,679	(21,592)
$50 to $99.9	10,347	17,509	(21,606)
$25 to $49.9	7,294	12,610	(24,689)
$10 to $24.9	3,736	12,839	(28,064)
<$10	2,650	4,835	(11,369)

Source: USDA, "The Current Financial Condition of Farmers and Farm Lenders," Economic Research Service, Agri. Info. Bulletin, No. 490, March 1985, appendix table 1.

TABLE 3.—AVERAGE DEBT SERVICE OBLIGATIONS AND CASH SURPLUS (SHORTFALL) FOR FARMS WITH DEBTS RANGING FROM 40 TO 70 PERCENT OF ASSET VALUES, 1983

Sales class ($1,000)	Principal payments	Interest payments	Cash surplus (shortfall)
>$500	$52,600	$108,533	$6,978
$259 to 499.9	21,074	48,201	7,222
$100 to 249.9	14,323	32,996	(4,840)
$50 to 99.9	9,892	23,223	(22,443)
$25 to 49.9	5,071	11,864	(21,056)
$10 to 24.9	3,736	7,690	(22,405)
<$10	2,585	5,419	(14,604)

Source: USDA Agri. Info. Bulletin No. 490, March 1985, appendix table 1.

POLICY OPTIONS AND THEIR POTENTIAL EFFECTIVENESS

Higher price supports

Raising price support levels is the old standby solution for dealing with farm finance issues. Many farmers and other observers seem to think that higher farm commodity prices will cure any problem facing agriculture. However, the data in Table 4 show that these observers are kidding themselves about the capacity of higher support prices to solve the current financial problems in agriculture. The data show the cash surplus (shortfall) of farms in each size/debt category as a percent of gross farm sales. Farm prices would have to be increased from 15 to 560 percent to correct the financial problems for most of the 386,000 farms with the most severe financial stress.

Price increases of this magnitude generated by price support programs are neither practical nor possible. The current financial problems of U.S. agriculture are too large to be solved by price and income support programs.

TABLE 4.—AVERAGE CASH SURPLUS (SHORTFALL) AS A PERCENT OF CASH SALES BY SALES CLASS AND DEBT/ASSET RATIO 1983

Sales class ($1,000)	Debt asset ratio		
	Over 0.7	From 0.4 to 0.7	Less than 0.4
>$500	(5.2)	0.7	14.1
$250 to $499.9	(1.8)	2.2	13.9
$100 to $149.9	(14.7)	(3.3)	10.3
$50 to $99.9	(32.5)	(31.8)	(2.0)
$25 to $49.9	(72.9)	(61.1)	(23.7)
$10 to $24.9	(211.3)	(150.2)	(44.2)
<$10	(567.9)	(499.8)	(144.0)

Source: USDA Agricultural Information Bulletin No. 490.

Provide government loan guarantees

Policy makers should keep one thing in mind as they consider this policy option. Government loan guarantees do not increase the repayment capacity of farmers with financial problems. A loan guarantee program will successfully deal with the financial stress problem only if the program requires that the excess debt situation of the borrower be corrected as a pre condition for obtaining the loan guarantee. Failure to impose such requirements will simply mean that the unavoidable wealth losses required to correct the excess debt problem will be transferred from borrowers and lenders to the government (assuming the government does not confiscate the assets of the defaulting borrower). This is certainly a viable policy option. However, it should be recognized as a loss transfer mechanism.

Proponents of the loan guarantee program point to the government bail out of Chrysler Corporation as an example of how this approach has been successful elsewhere in the economy. However, the Chrysler loan guarantee program simply provided the company with an opportunity to get its internal organization and operation into shape for operating in the new economic environment in which it found itself. Is the agricultural sector willing to make similar changes?

Add liquidity to the land market

One proposal is to create an agency to purchase land. The actions of the agency would provide strength and liquidity to the land market. The agency would then lease the land back to the farmer so that the farming operation could be continued. Presumably the land purchase agency would expect to receive a competitive rate of return on funds invested in land purchases. Thus, if land is purchased at a price equal to the debt of the selling farmer the lease payments would be about the same as the interest payments the farmer is currently making on the debt he transferred with the land. The net effect is that the borrower transfers title to his land to the agency in return for making no principal payments.

The average principal payments of farmers under financial stress are shown in Tables 2 and 3. The land purchase/lease back agency would completely solve the cash short fall problems only for farms over $250,000 gross sales with less than 30 percent equity and for farms with over $100,000 sales and equity between 30 and 60 percent. This accounts for about 21 percent of the highly leveraged farms. The remaining farms would still have several thousand dollars in annual cash short falls.

The land purchase proposal does deal directly with the problem of excess debt. It removes the burden of principal payments from the farmer, but does not remove interest payment obligations.

Debt removal

Solution to the excess debt problem requires that the debt and associated principal and interest payments be removed from the agricultural balance sheet and cash flow. Public policy will determine how this wealth loss is distributed among borrowers, lenders and the government.

How much excess debt is there? The USDA estimates of cash shortfall provide the basis for determining the amount and distribution of excess debt in the agricultural sector assuming that farm production, commodity prices, and off farm earnings of farm families remain at 1983 levels.

The USDA cash flow analysis assumed that principal payments are 1/20 of the existing debt. Thus, if we use 10 percent interest rates, annual principal and interest payments are $150 per $1000 of debt. This estimate of debt servicing cost is used to calculate the amount of debt that must be removed in order to reduce the cash shortfall to zero.

The first two columns of Table 5 show the average debt per farm in each category. The second two columns show the amount of debt that would have to be removed in order to reduce the average farmer's cash shortfall to zero. The last two columns show the percent of debts that would have to be removed.

Table 6 shows the total amount of debt owed by farms in the financially stressed category. Table 7 shows the total amount of excess debt for each group of farms. There is approximately $50 billion of agricultural debt that cannot be paid from current income (both farm and non farm sources) of farmers owing that debt. This is 23.5 percent of the total debt owed by the agricultural sector.

Three fourths of the excess debt is held by farms producing less than $100,000 in annual gross sales. Forty-five percent of the debt is owed by farms with less than $50,000 annual sales.

The USDA cash shortfall data clearly reveal the inappropriateness of including farms with less than $50,000 annual sales in our calculations of farm numbers used in formulating agricultural policies. Note in Table 5 that more than 100 percent of the debt owed by these farms would have to be written off to generate a zero cash balance for these farms. These farms have cash flow problems unrelated to their debt structure.

TABLE 5.—AVERAGE DEBT AND AMOUNT OF DEBT WRITE OFF REQUIRED TO REDUCE CASH SHORT FALL TO ZERO

Sales class	Average debt ($1,000)		Debt forgiveness required ($1,000)		Percent of debt that must be forgiven	
	DA<.7	.4<D/A<.7	D/A≧.7	.4<D/A<.7	D/A≧.7	.4<D/A<.7
>$500	$1,195	$1,074	$376	—	31	—
$250 to $499.9	586	461	37	—	6	—
$100 to $249.9	303	315	144	$32	48	10
$50 to $99.9	185	220	144	150	78	68
$25 to $49.9	132	112	165	140	125	125
$10 to $24.9	110	76	187	149	170	196
≦$10	49	53	76	97	155	183

TABLE 6.—AMOUNT OF DEBT OWED BY FARMS WITH DEBT ASSET RATIOS IN EXCESS OF 0.4

Sales class ($1,000)	Amount of debt (in billions)			Percent of total farm debt		
	D/A>0.7	.4<D/A<0.7	Total	D/A>0.7	.4<D/A<0.7	Total
>$500	$10.4	$10.2	$20.6	4.9	4.8	9.7
$250 to $499.9	8.9	10.8	19.7	4.2	5.1	9.3
$100 to $249.9	12.5	22.4	34.9	5.9	10.6	16.5
$50 to $99.9	8.3	13.1	21.4	3.9	6.2	10.1
<$50	10.2	12.3	22.5	4.8	5.8	10.6
All farms	50.3	68.8	119.5	23.7	32.5	56.2

TABLE 7.—AMOUNT OF DEBT WRITE OFF REQUIRED TO REMOVE CASH SHORTFALLS

Sales class ($1,000)	Amount of Write Off Required (in billions)			Percent of total writeoff	Writeoff as a percent of total farm debt		
	D/A>.7	.4<D/A<.7	Total		D/A>.7	.4<D/A<.7	Total
>$500	$3.2	—	$3.2	6	1.5	—	1.5
$250–$499.9	0.5	—	0.5	1	.2	—	0.5
$100–$249.9	6.0	$2.2	8.2	17	2.8	1.0	3.9
$50–$99.9	6.5	8.9	15.4	31	3.1	4.2	7.3
<$50	10.2	12.3	22.5	45	4.8	5.8	10.6
All farms	26.4	23.4	49.8	100	12.5	11.0	23.5

TABLE 8.—AVERAGE GROSS FARM INCOME MINUS OPERATING EXPENSES (EXCLUDING INTEREST) BY FARM SIZE FOR FARMS WITH DEBTS IN EXCESS OF 70 PERCENT OF ASSET VALUES

[Dollar per farm]

Sales class ($1,000)	Gross sales	Operating expenses	Net contribution of farm operation to cash flow
>$500	1,141,608	1,026,386	115,224
$250 to $499.9	337,463	248,336	89,127
$100 to $249.9	155,350	122,680	32,670
$30 to $99.9	72,653	56,718	15,935
$25 to $49.9	36,769	33,603	3,166
$10 to $24.9	16,481	23,621	(7,140)
<10	9,432	12,880	(3,448)

Source: USDA Agricultural Information Bulletin 490, appendix table 1.

Tables 8 and 9 show that the average farm producing less than $50,000 of gross agricultural sales generates about a $6,000 drain on cash flow even before debt payments are considered. Providing debt to these "farming" operations is hardly good business. Table 10 illustrates that if public policy is to maintain these families in rural areas with a standard of living comparable to commercial farmers, we would be better off to shut down their farming operation. The amount of compensation required in addition to 100 percent debt write off arises because the off farm income of these families is less than the amount of living expenses used in the USDA calculations.

Expand government loan programs

More credit, even at subsidized interest rates, is not the solution to an excess debt problem. An expanded government loan program is the worst possible policy that could be pursued. Providing additional debt to these farmers is analagous to putting more water in the swimming pool in an attempt to save a person observed to be drowning in water over their head.

A strong case can be made that liberal government lending policies promulgated by Congress through FmHA has already compounded rather than eased the farm credit problem. Government lending programs have provided 20 percent of the growth in non real estate farm debt over the past 12 years. Table 11 shows that FmHA operating loans increased 70 percent in 1976. This was followed by annual increases of more than 50 percent over the 1978–80 period. FmHA provided 34 percent of the increase in farm non real estate debt during the 1979–82 period Tables 12 and 13). FmHA market share of non real estate farm debt increased from 3 percent in 1973 to 15 percent in 1983 (Table 14).

TABLE 9.—AVERAGE GROSS FARM INCOME MINUS OPERATING EXPENSES (EXCLUDING INTEREST) BY FARM SIZE FOR FARMS WITH DEBTS RANGING FROM 40 to 70 PERCENT OF ASSET VALUES

[Dollars per farm]

Sales class ($1,000)	Gross sales	Operating expenses	Net contribution of farm operation to cash flow
>$500	1,056,994	896,548	160,446
$250 to $499.9	340,040	257,215	82,825
$100 to $249.9	157,949	106,784	51,165
$50 to $99.9	76,157	55,800	20,357
$25 to $49.9	38,236	34,406	3,830
$10 to $24.9	16,494	23,128	(6,630)
<$10	4,176	10,330	(6,154)

Source: USDA Agricultural Information Bulletin 490, Appendix Table 1.

TABLE 10.—ANNUAL CASH PAYMENTS IN ADDITION TO 100 PERCENT DEBT WRITEOFF REQUIRED FOR ZERO CASH SHORTFALL

Class ($1,000)	If farming operation is continued		If farming operation is terminated		Off farm income minus median nonfarm family income 1983[1]
	D/A≧.7	.4<D/A<.7	D/A≧.7	.4<D/A<.7	
$25 to $49.9	$4,950	$4,200	$8,116	$8,030	–$7,951
$10 to $24.9	11,500	10,944	4,360	4,313	–4,349
≦$10	4,042	6,598	594	444	–436

[1] The USDA calculations of cash surplus (shortfall) estimated family living expenses as the 1983 median family income for non metropolitan counties ($20,938).

TABLE 11.—ANNUAL INCREASE IN NON-REAL-ESTATE DEBT OUTSTANDING FROM PREVIOUS JAN. 1, 1973–84

[In percent]

Year	Banks	PCA	FHA	Individual and others[1]	Total excluding CCC
1973	14	9	1	9	11
1974	20	18	12	14	18
1975	6	21	19	10	11
1976	12	13	70	13	11
1977	15	13	6	17	15
1978	10	10	67	23	15
1979	10	11	84	17	16
1980	10	21	55	16	18

TABLE 11.—ANNUAL INCREASE IN NON-REAL-ESTATE DEBT OUTSTANDING FROM PREVIOUS JAN. 1, 1973–84—Continued

[In percent]

Year	Banks	PCA	FHA	Individual and others[1]	Total excluding CCC
1981	2	9	31	6	8
1982	4	7	23	6	8
1983	10	(4)	2	4	4
1984[2]	8	(7)	(1)	(6)	1

[1] Includes SBA.
[2] Preliminary.

Source: USDA, Economic Indicators of the Farm Sector.

A good portion of this debt was for disaster loans. Disaster loans simply add to the disaster of farms that already have more debt than can be repaid. Borrowed funds can profitably be used only on investments that yield a return higher than the interest rate at which the funds were borrowed. Payment of last year's production expenses from funds borrowed in lieu of a failed crop produce no return on investment. There is a genuine need for farm programs to provide mechanisms for disaster relief. However, this disaster relief must take the form of indemnity payments from insurance to avoid doing more harm than good in providing farmers with money to deal with the disaster.

Do nothing

One policy option is to simply let the chips fall where they may. This will mean that the wealth losses will be shared between borrwers and leaders. Unless lenders and borrowers move quickly to cut their losses and get debt into line with repayment capacity, the magnitude of the problem, and the cost of adjustment will continue to grow.

A do nothing government program will result in either a substantial transfer of asset ownership from borrowers to lenders to remove the debt and/or a substantial increase in the amount of land sales. Land prices have already fallen 10 to 28 percent in the midwest. Forcing the complete adjustment to occur through land sales will generate additional declines in land values. Further declines in land values may occur regardless of the policy selected. However, a do nothing policy is likely to cause an over reaction in land prices in the short run.

TABLE 12.—SOURCES OF INCREASES IN FARM NON-REAL-ESTATE DEBT 1973–84

[Dollar amounts in thousands]

Period	Amount of Increased Debt Provided				
	Banks	PCA	FHA	Individual	Total
1973–76	5,523	3,945	873	2,491	12,832
1976–79	7,667	3,993	3,527	5,629	20,816
1979–82	4,583	5,892	7,632	4,393	22,500
1982–84	5,812	(2,188)	170	162	2,956
1973–84	23,585	11,642	12,202	12,675	60,104

Source: USDA Economic Indicator of Farm Sector.

TABLE 13.—PERCENT OT TOTAL INCREASE IN NON-REAL-ESTATE DEBT ACCOUNTED FOR BY LENDER

Period	Percent of total provided				
	Banks	PCA	FHA	Individuals	Total
1973–76	43	31	7	19	100
1976–79	37	19	17	27	100
1979–82	20	26	34	20	100
1982–84	150	(58)	4	4	100
1973–84	39	19	20	21	100

Source: USDA Economic Indicators of Farm Sector.

TABLE 14.—LENDER MARKET SHARES FOR FARM NON-REAL-ESTATE DEBT SELECTED YEARS

[In percent]

Years	Banks	PCA	FHA	Individual and other
1973	51	24	3	22
1978	46	25	5	23
1983	40	22	15	22

Source: USDA Economic Indicators of Farm Sector.

A do nothing policy is workable. The market will adjust. The results will include a substantial increase in the number of loan foreclosures and farm bankruptcies. It will also result in a substantial increase in the number of agricultural bank failures. Both agriculture and the lending industry can survive a do nothing policy. However, a do nothing policy will result in major structural changes in both industries. Moreover, the impacts of these structural changes will spill over into mainstreet of rural communities accross the U.S. Policy makers will have to decide if these changes are an acceptable price to pay for the solution to the farm finance problem.

CONCLUSIONS

There is clearly a serious financial problem in U.S. agriculture. The problem is about $50 billion of farm debt that cannot be repaid from the combined farm and non farm income of the families that owe the debt.[2] This accounts for about 23 percent of the total debt held by the agricultural sector.

The magnitude of the excess farm debt problem requires large scale and immediate corrections. There are no satisfactory partial solutions. Failure to correct the problem will completely consume the equity of farmers holding the excess debt. Furthermore, failure to correct the problem will also seriously impact the economic viability of financial institutions currently providing credit to agricultural producers.

There is no way of avoiding the wealth transfers and losses that have occurred from creation of the excess debt and the asset devaluations that have occurred. Failure to recognize the losses and to terminate the growing debt service obligations associated with the excess debt simply compounds the problem.

The challenge facing policy makers is to determine how those losses are to be distributed among borrowers, lenders, and the government.

The government holds about $25 billion of the excess debt in the form of FmHA loans. Since FmHA is by law the lender of last resort, a very high proportion of its portfolio is almost certainly in the "impossible to repay" category. Thus, one step of the adjustment process might be to terminate FmHA lending operations and forgive all outstanding FmHA farm loans. This would eliminate about one-half of the excess debt.

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[2] The estimates of excess debt derived from the USDA data are probably upper bound estimates. However, if the USDA data and/or these calculations are over estimated by 50 percent, there is a substantial excess problem to be dealt with.

High interest rates are not the cause of the problem. Thus, efforts to subsidize interest rates to farm borrowers is not an appropriate policy response. Moreover, the problem is so large that interest rate subsidies provide only insignificant, partial relief to the symptoms of the excess debt problem.

The magnitude of the excess debt problem also renders price support policies ineffective as a solution. The farm finance problem must be dealt with separately from price and income policies. Moreover, the finance problem should be dealt with before price and income policies of the 1985 farm bill are developed.

One thing is clear. A policy decision should be made quickly. If the decision is to do nothing, then lenders and borrowers must immediately initiate the adjustment to minimize losses. Similarly, if there is to be relief in the form of a government program, it should be implemented as soon as possible to terminate the losses and the disruption caused by the current situation.

Statement of Donald E. Wilkinson, Governor, Farm Credit Administration

Mr. Chairman, my name is Donald E. Wilkinson. I am the Governor of the Farm Credit Administration (FCA), the independent Federal agency responsible for the regulation, supervision, and examination of the cooperative institutions that make up the Farm Credit System (System). With me today are Larry Edwards, Deputy Governor and Chief Examiner, and Frederick Medero, General Counsel. We appreciate this opportunity to appear before your committee to request immediate consideration and passage of legislation granting FCA enforcement authorities comparable to those possessed by the other Federal financial institution regulatory agencies.

The Farm Credit System legislation has been enacted by Congress to provide for the chartering and operation of privately owned cooperative lending institutions that are financially sound and capable of providing a reliable source of credit for farmers, ranchers, producers and harvesters of aquatic products, and their cooperatives. Faced with the problems of the agricultural economy that have persisted for the past four to five years and are likely to persist for at least the next two years, hard questions must be asked—and answers found—for the economic pressures on Farm Credit System banks and associations.

One Federal intermediate credit bank is now operating on funds provided by the other 36 Farm Credit banks on an interim basis while a longer range financial assistance plan is developed. A second Federal intermediate credit bank will also need financial assistance this year. In addition, since September 1, 1983, eleven production credit associations have been liquidated and during the first 11 months of 1984 39 PCAs have been merged, some to strengthen their capital positions. As we direct our attention in this testimony to the Credit title of the Farm bill, we do so with the realization that the improvement of farm income is paramount and credit considerations, while extremely important, are secondary.

The FCA, is the Federal agency responsible for the regulation, supervision, and examination of Farm Credit System institutions. Our agency is, of necessity, concerned with the effect that the severity of stress has had on the ability of the system to provide credit and financial services to all creditworthy agricultural producers. The Federal land banks were carrying $3.9 billion in non-performing loans out of a total of $50.7 billion on December 31, 1984, $1.1 billion of which were not accruing interest because of the perilous state of the borrowers. The Federal intermediate credit banks had $2.2 billion in non-performing loans, with $281 million in a nonaccrual status, and production credit associations were estimated to have $2.4 billion in non-performing loans out of $17.6 billion in loans outstanding on December 31, 1984. The picture for the banks for cooperatives is brighter with only $537.8 million in non-performing loans on December 31, 1984 and only 14.7 million in non-accrual status out of a total of $8.8 billion in loans outstanding.

The lending activities of the Farm Credit System represent a large undertaking. The 37 banks of the Farm Credit system jointly raised more than $103 billion through the sale of consolidated debt obligations in the Nation's money markets during 1984. The strength of the Farm Credit System and its agency status have made it possible to obtain those funds at close to the same cost as the U.S. Treasury itself and that in turn has made it possible to lend money to farmers at competitive rates.

Two factors are essential to the successful operation of the Farm Credit System. Investors in System securities must have confidence in the safety of their investments, and the member/borrowers must have confidence in the management and financial integrity of the institutions in which they are required to buy stock as a condition to borrowing. That stock provides a capital base for System institutions and is at risk if the institution runs into financial difficulties. The FCA was created and empowered to regulate, supervise, and examine the Farm Credit System institutions in order to protect the quality of service and capital investment of investors and member/borrowers.

For fifty years FCA's supervision was intrinsically connected with the operation of all aspects of system institutions. But the System evolved from one that operated with Federal seed capital to a wholly borrower-owned System. FCA's supervisory role has changed considerably, especially with the enactment of the Farm Credit Act of 1971 and the Farm Credit Act amendments of 1980. The supervisory authorities contained in the 1971 Act proved sufficient during the strong agricultural economy of the 1970's.

But it has become increasingly evident that the timeliness of FCA efforts to discharge its supervisory responsibility has been affected by the lack of adequate enforcement authorities. The results are continuing excessive loan losses. Problems and weaknesses that have resulted in several PCAs being placed in liquidation were identified and corrective action recommended, but sufficient corrective actions were not taken in a timely manner. On several occasions, district farm credit boards have stepped in and removed directors elected by association stockholders based on authority in association by-laws. In many of these cases, because of the lack of administrative review and appeals rights these actions have resulted in law suits or confusion among the association's stockholders. These and other serious breaches of discipline and safety cannot continue.

As the FCA has adapted to this changing relationship with the System, and the serious problem of System losses, we have carefully studied the authorities of other Federal agencies that regulate financial institutions. We respectfully urge Congress to provide the FCA enforcement tools similar to those of other Federal financial regulatory and supervisory agencies. We are requesting that Congress enact legislation authorizing FCA to issue cease-and-desist orders, to remove directors and officers, and to impose money penalties.

These enforcement powers would permit FCA to increase local control over management decisions by withdrawing FCA from normal operations while at the same time providing the agency with stronger and more specialized tools to achieve the timely correction of abnormal or risky situations. Of equal importance are the authorities granted to Farm Credit System institutions and directors, officers, employees and agents of such institutions to obtain administrative hearings and judicial review in accordance with the Administrative Procedures Act.

Senator Edward Zorinsky of Nebraska, on his own initiative, has introduced a bill, S. 466, because of his knowledge of the Farm Credit System and the critical problems of the Omaha Farm Credit district. FCA has formally requested the respective Chairmen of the House and Senate Agriculture Committees, to grant FCA intermediate enforcement authorities virtually identical to those currently exercised by other regulators of Federal financial institutions such as the Federal Reserve Board, Comptroller of the Currency, the Federal Home Loan Bank Board, and the National Credit Union Administration. The authorities we seek would increase the ability of the FCA to protect the investors and shareholders of Farm Credit System institutions and provide due process protections and rights to appeal such FCA actions.

What truly is needed by FCA are *intermediate* enforcement authorities. Presently, FCA has limited enforcement powers, some of which can only be used as a last resort. The agency, may, with the concurrence of the district board, require merger when it determines that an association has failed to meet its obligations or to conduct its operations in accordance with the Act. And, upon default of any obligation, a System institution may be declared insolvent by the Governor of the FCA and a conservator or receiver may be appointed.

At present, FCA can only take action after the damage has been done. Thus, unsafe and unsound practices identified by FCA or the banks in their supervisory capacity cannot be remedied under current authorities until those practices result in substantial losses and, in some cases, insolvency. This is not to say that in every instance System institutions are unresponsive to FCA reports that describe problems with the institution's activities. In most cases banks and associations take corrective action. The problem occurs with a minority of institutions that refuse to take corrective action or where the corrective action is untimely, insufficient or ineffective.

The FCA possesses a variety of "approval" authorities, which together with supervisory activities and examination of banks and associations are "tools" for discovering and correcting problems before an institution becomes insolvent. But none of these tools carry with them the power of enforcement so they are essentially only means for persuading the institutions to take corrective action. The Farm Credit System, however, is too large and the times too perilous to permit supervision by persuasion.

The intermediate enforcement powers are essential if the FCA is to carry out the mission assigned to it by the Congress. FCA's supervisory and approval authorities served the agency well many years ago when the FCA was a "program administrator." But times have changed and the Farm Credit System has matured. Those changes are not only reflected in the evolutionary developments of the various farm credit acts, culminating in the Farm Credit Act of 1971, as amended in 1980, but also in the activities undertaken by the FCA and the System. In the past, FCA was perceived by Congress as the System's advocate—its lobbyist, and it was perceived by the commercial banking system as the System's management consultant. Now the Farm Credit System has created a Farm Credit Council to present its interests to Congress, and the FCA is restricting its involvement in the management decisions of what is, after all, a system of privately owned institutions.

Implicit in the statutory development of the FCA and Farm Credit System is the necessity of the FCA maintaining an arm's length relationship with the Farm Credit System. The focus of the FCA's activities has been on reporting the results of our examinations to the boards of directors of System banks rather than in participating in their management decisions. In most instances bank and association boards of directors take appropriate corrective actions when they are indicated, but recent events clearly indicate that the FCA needs greater authority to ensure that such actions are taken.

The enforcement authorities needed by the FCA to effectively perform its role as regulator and supervisor are not unique. They are in use by every other Federal financial institution regulator, and one or more of those enforcement authorities are available to every State financial institution regulator. They are needed now to deal with today's crises and in the future to maintain effective discipline of an essential credit service for American farmers, ranchers, producers and harvesters of aquatic products, and their cooperatives.

Intermediate enforcement authorities would permit the FCA to stop or alter a course of action by a bank or association which is unsafe, unsound, threatens the strength and stability of a financial institution, or violates the law or retgulations. These powers would be exercised within a framework that has proven effective through the experience of all of the other Federal agencies that regulate financial institutions. Finally, the practices, procedures, and precedents exist that provide a great degree of guidance to both the FCA and to individuals and System institutions as to what behavior will lead to what result and the extent of accountability of parties to the FCA supervisory and regulatory authority.

It is important to place the efforts of the FCA and the proposed enforcement authorities in the perspective of improving and maintaining the security of Farm Credit System institutions. Without adequate provision for the safety and soundness of operation of System institutions, investor confidence can erode especially in adverse economic conditions such as those currently being experienced by agricultural lenders. System borrowers are also stockholders, and they too need adequate assurance of the safety and soundness of System institutions. Finally, the success or failure of each institution within the cooperative Farm Credit System affects the safety and soundness of all the other institutions within the System, in part because all the banks stand behind each security sold by the System, and in part because the reputation of the entire System is affected by the individual reputations of each institution in the System.

Security of the System is essential to investors, stockholders and individual institutions of the System because it directly affects the availability and cost of borrowing. It is essential for System institutions to have the quality of operation—the safety and soundness of operation—that can be achieved through effective guidance by boards of directors, strong management by officers and employees and effective examination and supervision by the Farm Credit Administration.

The key to safety and soundness and thus investor and member/borrower confidence is the quality of the institution's operation and loan portfolio. The Congressional mandate of the Farm Credit System is to serve all creditworthy farmers, ranchers, aquatic producers and harvesters, and their cooperatives, but if loan quality is allowed to deteriorate, interest rates will be high. It is the historical quality of the Farm Credit System that has given its securities the reputation as a secure investment. No investor has lost his or her investment or failed to receive interest due.

Another response to the economic difficulties being experienced also needs encouragement and your legislative assistance. As any institution that faces economic hardship, the Farm Credit System institutions are looking to streamline their operations, marshall their resources, and find better and more economical ways to conduct their business.

Mergers, consolidation of management, realignment of association territories, building appropriate reserves, and other actions of the Farm Credit System should be applauded and encouraged. It is true that some of those associations that perceive themselves to be insulated from the difficulties being experienced by their sister institutions will be drawn into the fray. But they are not insulated in any long term sense because the Farm Credit System is ultimately reliant on borrowing monies from the Nation's bond markets and must rely on investors to buy System securities. All thirty-seven banks must stand behind those securities—the strong and weak alike.

The Farm Credit System can retain the essential local control and involvement while providing for greater discipline and a stronger capital base, but it must prevent efforts by some institutions to isolate themselves from the rest of the System. The Federal Farm Credit Board, which is the policy-making body of the FCA, has directed the agency to explore the possible voluntary merger of System institutions. Not every farm credit district is interested in merging unlike institutions, but we are beginning to study the options available for those that can benefit from doing so. As soon as it is appropriate to do so, the FCA will recommend an amendment to the Farm Credit Act to provide for more flexibility.

At the same time, the essential requirement for the System to meet the financial difficulties with which it is presently faced is to develop a method for consolidating its capital resources while preserving the decentralization of credit service delivery. We are of the opinion that this is the most effective means of absorbing losses and preventing a loss of confidence that could result in a "run on B stock."

The agricultural and financial sectors of the American economy are changing rapidly. The Farm Credit System cannot stand still. If there is to be adequate credit available to agriculture, there needs to be a Farm Credit System and it must continue to develop new ways of meeting the credit and financial service needs of the agricultural sector. It is important that those changes maintain the advantages of local control in areas of credit and service delivery, while providing adequate discipline both from other institutions of the System and from the Farm Credit Administration as a strong and effective regulator, supervisor, and examiner.

Congress also needs to address a basic problem in the agricultural economy that threatens not only the financial institutions that lend to farmers, but erodes the equity of solvent farmers as well. The Farm Credit Administration endorses the concept of stabilizing asset prices such as the price of agricultural land. Farmers in unstable economic condition, commercial lenders, Farm Credit system institutions, and the Farmers Home Administration have a potentially large volume of acquired property which if placed on the market in some areas will cause an overadjustment of land prices, destroying not only market values for all agricultural real estate but the balance sheets of salvageable farm businesses.

Retaining acquired properties, however, weakens lending institutions and drives up interest rates to other farm borrowers. The result is a limited capacity by lenders to hold acquired property off the market and greater instability of land prices.

The Farm Credit Council is developing a proposal to create an Agricultural Conservation Corporation whose purpose would be to purchase excess agricultural land in areas where putting it on the market would destroy land values. As land prices stabilize, the corporation would sell the property. In the meantime the land would be leased to farmers or conserved. Some land would be converted to less erosive uses. We believe this proposal is deserving of careful study by your committee. We would simply note, however, that the cost of any such proposal must be carefully scrutinized in view of the overall necessity to reduce Federal outlays and move toward a balanced budget.

Finally, I am pleased to report to you that, through the cooperative efforts of the FCA and the Farmers Home Administration (FmHA), the FmHA regulation pertaining to the approved lender program has been revised to automatically qualify most Farm Credit System institutions for approved lender status. As the FmHA shifts from direct lending to providing its assistance through loan guarantees, the effectiveness of the approved lender program should be utilized as a means of reducing paperwork and increasing cooperation between FmHA and commercial lenders. We recognize that developing, improving, and maintaining good working relationships between the Farm Credit Systemand the FmHA is crucial, and the FCA will continue to assist in promoting cooperation.

In summary, we know you are aware that agriculture and all those institutions and businesses that serve agricultural producers are going through a difficult period of adjustment which is far from over. Some farmers will fail and so will some financial institutions and other businesses. But many will survive and come out stronger and better prepared for the future because of the lessons that are being learned and the corrective actions that are being taken. One lesson is clear; the Farm Credit Administration needs adequate enforcement authorities which can be utilized before problems become so severe that System insititutions are unable to recover. The FCA needs the tools it has requested to do its supervisory job properly. We urge your consideration of our request.

STATEMENT OF DALE L. LOCKER, DIRECTOR, OHIO DEPARTMENT OF AGRICULTURE

I would like to thank Chairman Helms and the members of the Senate Agriculture Nutrition, and Forestry Committee for providing me with the opportunity to offer testimony on the crucial problems that are facing family farmers in Ohio.

In agriculture, as in many other areas of economic development, Ohio is a microcosm of our nation, and as is the case throughout the country, many Ohio farmers are facing their toughest year ever in 1985. Farm foreclosures are occurring at a rate unprecented since the Great Depression, and it is estimated that between 10 percent and 25 percent of the Ohio farm families presently in business may be forced to liquidate before year's end.

Agriculture is our number one industry in Ohio. Governor Richard F. Celeste and his administration have continued to offer support for production agriculture at the family level through promotion of programs designed to assist farmers with their borrowing needs. Recent passage of House Bill 344 emergency farm legislation specifies that $100 million of the state's investment portfolio has been specifically earmarked for family agriculture. Under this so-called "Linked Deposits" programs, these funds are deposited in participating lending institutions (including local Production Credit Associations) in Certificates of Deposit or the equivalent which are purchased at roughly three percent below prevailing rates. In return for these deposits, the local lender or Production Credit Association agrees to put out a comparable amount of money in farm loans to qualified family farmers at approximately three percent below prevailing interest rates.

In the past, our experience with Linked Deposits has been highly successful in terms of small business development in the state. However, this is the first time in our state where a significant portion of our investment portfolio has been specifically earmarked for farmers and placed in local lending institutions where it can be best utilized to enhance the cash flow of many of Ohio's debt-ridden farmers.

In fact, we would call the committee's attention to efforts which are presently underway by members of Ohio's Senate delegation to explore the feasibility of a federal Linked Deposit program which similarily utilizes U.S. Treasury funds for farm debt relief. Based on what we are discovering with the Ohio experience, we would highly recommend such a program.

Another area of concern as it relates to farm finances is the Farmers Home Administration (FmHA). The FmHA has been accused of not hiring enough staff of slow paper processing and of foot dragging in making loans. I suggest that FmHA be run as other federal/state cooperative programs. Let it be operated by the State Department of Agriculture under guidelines and funding at the Federal level. We do this presently with other programs. One example is the State Department of Agriculture's Meat Inspection program. Federal Inspection still exists as a supervisory body to ensure compliance and uniform standards. The importance of such an approach is that the State Departments of Agriculture would deal exclusively with Agricultural finance and not all of the other time consuming programs presently being handled by FmHA.

Also, it is vital for the federal government to continue to permit the use of tax-exempt industrial revenue bonds for agriculture to reduce high capital cost barriers and allow states to target capital assistance to qualified users in the agricultural sector. The present I.D.B. enabling legislation is slated to expire December 1986, and while industry has benefited from I.D.B.s for decades, only recently have farmers qualified under many state I.D.B. initiatives. Therefore, Congress should retain a modified I.D.B. program for farmers as part of the 1985 Farm Bill.

Without doubt, perpetually high interest rates are a serious contributor to the current agricultural conditions in our state. In addition, the declining value of agricultural lands contributed to the serious debt to equity ratio increases of many of our troubled farmers. But truly, the most serious contributor to our current agricultural troubles has to be the inability of our farmers to make an adequate return on their investments. Even under ideal conditions with six percent interest and spiraling land values, it is not apparent that farmers could sustain a significant cash flow in light of today's miserably, depressed commodity prices.

And certainly, while farm financing is the life's blood of agriculture in this country, programs which address credit needs are simply a way of keeping the terminally ill patient "on the respirator" instead of finding a workable cure for the disease.

However, we realize that in an era of mounting federal deficits, the "cure" for the disease may be worse than the disease itself. Nevertheless, tough decisions must be made if America is to remain the leader in agricultural productivity and in the amount of disposable income needed for quality food. Just twenty years ago it took seventeen percent of the disposable income of the average American family to meet its food needs. Now that figure is approximately twelve percent—the lowest percentage by far of any country in the world.

So clearly, the American consumer has been the greatest beneficiary of our country's food policies. However, we as a nation cannot long sustain the loss of between ten and twenty-five percent of our family farms annually. If these events are allowed to continue, the days of cheap food will come unceremoniously to an end. For many years, Congress in this administration has explored mandatory production control as an element in federal farm policy. Perhaps now is the time to take a serious look at this concept and consider constraints on production and imports as a necessary adjunct to federal price support programs. In order to restore even a modicum of profitability to agriculture, corn should be supported at $3.50 and soybeans at $8 or $10. Dairy price support should remain in the $12 per hundred weight range. However, any such support prices should be focused on mandatory set-aside adjustments. We should also tie in soil conservation and cross compliance with programs by incorporating language in acreage set aside programs and the 1985 Farm Bill to ensure that conservation features are integrated into all commodity programs. The overriding criteria should be to hold soil losses below replacement rates.

Also, subsidized foreign exports are keeping downward pressure on farm products. We must act now to limit exports of Canadian hogs, Australian beef and tomato products from Israel. The United States has the capability to feed its people without additional food driving prices down and driving U.S. out of business.

With the serious conditions that the farming community is in, it would appear any effort by this administration to move toward a more market oriented program should be based on a well thought out transition effort over a series of years as opposed to suddenly abolishing all farm programs and letting the market kill the "little guy."

As a closing comment, let me say that one consistant point that Ohio's agricultural family has brought forth is: "We need a long term farm policy." Regardless of how good, or how bad the 1985 Farm Bill is, if it is to change every two years with modifications in between, there is no way a farmer can plan on or be prepared for the next year's operations. The local banks are hesitant, based on Washington's changeable winds, to make farm loans many times to those who need it most.

Once again, I'd like to thank the committee for offering me the opportunity to appear before you today.

I'd be glad at this time to answer any questions you might have.

Statement of Alan Tubbs, Chairman, American Bankers Association, Agricultural Bankers Division Executive Committee

Mr. Chairman and Members of the Committee, thank you for holding this hearing and allowing our organization the opportunity to testify. I am Alan Tubbs, President, First Central State Bank, DeWitt, Iowa. I am representing the American Bankers Association and I am currently Chairman of the Executive Committee of the Agricultural Bankers Division of the ABA.

The combined assets of our nearly 13,000 members banks represent approximately 95 percent of the industry total. While our members range in size from the smallest to the largest banks, approximately 85 percent of them have assets of less than $100 million.

Mr. Chairman, I know that I do not need to extensively review for you the current agricultural problem. The effects are displayed daily on the front pages of the newspapers from coast to coast.

I recommend the recent report by the Department of Agriculture entitled "The Current Financial Condition of Farmers and Farm Lenders" to anyone interested in an economic analysis of the extent of the problem. A few key facts contained in that report illustrate the problem facing us:

There are over 4,000 agricultural banks in this country (for purposes of this report, an agricultural bank was defined as having under $500 million in assets and more than 25 percent of total loans in agriculture).

In late 1984 loan delinquencies at non-agricultural small banks declined by 6 percent and at agricultural banks loans delinquencies increased by 10 percent.

In 1983, only 6 of 44 banks failures were agricultural banks (14 percent). Through June of 1984 only 8 of 42 failures involved agricultural banks (19 percent). From June 1984 to mid-December 1984, 15 of 32 bank failures were of agricultural banks (47 percent).

PROBLEM BANKS

The number of problem banks reported by the three major bank regulators (Comptroller of Currency, State Banking Commissions, and the FDIC) have increased over the last decade. But the significant increase in the number of problem banks has occurred during the last three years as shown in Table 1.

TABLE I.—*Number of problem banks reported by major regulators*

1970	252
1974	183
1978	342
1982	369
1983	642
1984	800

U.S. BANK FAILURES

Agricultural banks, those banks with agricultural credits comprising 25 percent or more of total loans of the bank, represent about 28 percent of the total number of insured commercial banks. Until recently, these agricultural banks were underrepresented among failing banks. But from June to September 1984, 10 of 27 banks that failed were agricultural banks. The number of bank failures closely parallels the rapidly increasing number of problem banks among agricultural banks since 1983 (as shown in Table II).

The F.D.I.C. now estimates that they will close an average of 2 banks per week—over 100 banks in 1985. This means that the number of bank failures in 1985 will be almost four times the average number of bank failures per year for the previous 20 years.

TABLE II.—*Number of U.S. bank failures*

[Averaged 5-year increments, then selected years]

1961–65	6.6
1966–70	6.4
1971–75	6.8
1976–80	9.8
1981	10.0
1982	42.0
1983	48.0
1984	79.0

Based on the agricultural credit and farm debt situation, I see an impending and unavoidable crisis for this year and possibly beyond as these highly leveraged farmers hit a point of no return.

My concern as these farm borrowers approach insolvency, foreclosure, or partial liquidation, is that this forced re-allocation of assets will cause further erosion of the asset values and will create a downward spiral. The deflation of agricultural assets is one of the major dilemmas facing today's farmers and agricultural lenders. For example, land in Central Illinois that sold in 1981 for $4,000 an acre is slow to find a buyer today at $2,500 per acre.

The concluding paragraph of the USDA report, which I noted earlier, summarizes well the situation we are facing.

"Bank failures are currently running at 10 times their average annual rate for the past three decades. Institutional lenders, depending on the proportions of their portfolios in farm loans, may not be able to absorb likely increases in the numbers and amounts of troubled farm loans over the next few years without severe problems, further increases in lender failures, and increases in the costs of credit to agricultural borrowers." ("The Current Financial Condition of Farmers and Farm Lenders", USDA, March 1985, page 28).

In the context of these difficult times for farmers and agricultural banks, consideration of provisions affecting credit in the 1985 Farm Bill are very important to the members of the ABA. I shall address the following matters that are being considered by this Committee in the context of the 1985 Farm Bill: 1) Farmers Home Administration (FmHA); 2) Farm Credit System; 3) Farm Credit Council's land asset proposal; 4) Secondary market for agricultural loans; 5) net worth certificates; 6) Clear title resolution; 7) Federal Crop Insurance Corporation; 8) Bankruptcy modification; 9) food stamp distribution system; and 10) alternative minimum tax.

FARMERS HOME ADMINISTRATION

The operation of the Farmers Home Administration must be examined in relation to the whole structure of this country's financial institutions and the credit needs of the agriculture section of the economy. During consideration of the 1985 Farm Bill, the ABA recommends that the credit programs administered by the FmHA be restructured.

Any federal credit activity involves some degree of subsidy. A subsidy is granted when a borrower obtains funds at an interest rate lower than would have been paid for a comparable private sector loan or one not covered by a federal guarantee. Plus the administrative cost for personnel to perform the loan-making and servicing functions must be added.

However, the insured loan program of FmHA is much more dependent on government funding and commands more of a subsidy than does the guaranteed loan program where the loans are provided by private lenders. We believe more of each year's appropriations should be used for loan guarantees in lieu of direct lending by FmHA.

ABA strongly supports the provision in S.616, the Agriculture, Food and Trade Act of 1985, which gradually raises the interest rate for current insured operating loan and farm ownership loans to commecial lending rates and all interest rates currently provided through FmHA would be raised to the prevailing private sector rate.

We do want to comment on one important program affecting farmers and their lenders—the Farmers Home Administration's Debt Adjustment Program (DAP). The ABA advocated adding an interest rate write-down to the principal write-down proposed by the Administration last fall. We supported this alternative because rural agricultural banks could not afford to reduce their bank capital accounts.

The effect on capital was a major reason for banks' lack of involvement in the initial DAP. Write-offs of principal could reduce bank capital below the capital adequacy ratios acceptable to bank regulators. Agricultural banks are particularly sensitive to bank examinations at present because many small banks are being forced to sign cease-and-desist orders and other enforcement agreements that place onerous burdens on the banks and their management until capital positions are returned to normal levels. An interest rate alternative to the principal write-down avoids this capital problem for small banks and allows the banks to assist more agricultural borrowers.

Banks want to work with their farm borrowers. We are willing to reduce farmers' payments. However, we propose reducing the interest rates and our income rather than writing down principal and lowering our capital.

Congressional attention to the agricultural situation has resulted in the addition of an interest rate write-down to the DAP and the adoption of provisions that follow closely recommendations made by the Agricultural Bankers Division of the ABA. These provisions include: reduced cash flow requirements; an extended period of time over which loans can be restructured; and improved guarantee provisions. Further, the Administration has stated that additional guaranteed funds will be provided if needed.

The problem we face now is that we are in the spring planting season. Farmers need operating capital now, and in many states and localities the Farmers Home Administration (FmHA) is not processing the DAP applications expeditiously. In fact, 55 percent of the respondents to our Agricultural Bankers Division survey indicated that it now takes from 90 to 120 days for an FmHA loan to be approved. Effective loan processing of less than 30 days must be in place at FmHA county office if any government approved loan restructuring plan is to work.

USDA has now liberalized the Approved Lender Program (ALP) allowing most Federal Land Banks and Production Credit Associations, in addition to some commercial lenders, to qualify. It is unfortunate that this announcement was made on the 20th of March rather than in September of last year. The number of ALP's has significantly increased since last May, but the program will only work if it is enthusiastically implemented by the Farmers Home Administration at the federal, state and local levels. However, even with the difficulties which have occurred, use of the regular guarantee is at an all time high and should exceed $400 million by May 1st.

FARM CREDIT SYSTEM

Senator Zorinsky, in close cooperation with the Farm Credit Administration (FCA), has introduced S. 466, a bill which would grant FCA new authorities to 1) issue cease-and-desist orders, 2) levy civil money penalties, 3) remove officers and directors of system institutions, and 4) sue and be sued. In some cases, these authorities comprise broad and expanded powers which when combined exeed those possessed by other federal or state financial regulators.

When addressing the financial problems of the Farm Credit System, Congress should consider these proposed new powers carefully in order to protect the rights and autonomy of the local farmer cooperative member and at the same time keep the FCS financially strong and viable.

FARM CREDIT COUNCIL'S PROPOSED AGRICULTURAL CONSERVATION CORPORATION (ACC)

The ABA is interested in exploring a variety of solutions to what is a major problem in the agricultural economy: declining land values. It is of great importance to address this problem, particularly for the Midwest. Referring again to USDA's report on the current financial condition of farmers and farm lenders, "debt considered adequately secured in 1980 may no longer be so, because farm land values have failed to rise as expected, and have dropped by as much as 28% in some corn belt states".

In that context proposals for responses such as that offered by the ACC should be carefully examined. The Government Relations Agricultural Task Force, of which I am a member, did explore some aspects of this proposal at 2 recent meetings and will consider it again at a meeting in mid May. Based on our initial review, we do have some questions that should be explored as this proposal is considered.

One primary consideration is the probable cost of any such program. Further, we believe careful analysis must be given to the amount of land that might be involved in this proposed corporation and the types of agricultural lenders who can participate.

The ABA through its Government Relations Agriculture Task Force and the Agricultural Bankers Division will continue to explore this and other proposals designed to slow the rapid deflation in land values that are affecting the agricultural credit situation.

SECONDARY MARKET FOR AGRICULTURAL LOANS

Due to the current agricultural situation, a farmer's long term financing options and resources for creating positive cashflows are extremely limited. Agricultural banks are exploring options for other sources of long term credit, beyond traditional sources, which could provide competitive and stable funds for American farmers. ABA looks forward to working with Congress, the Administration, and other interested groups, in formulating proposals in this area.

NET WORTH CERTIFICATES

Two important sections of the Garn-St Germain Depository Institutions Act expiring October, 1985 are the provisions of the law facilitating interstate mergers between failed financial institutions and the authorization of net worth capital certificates for troubled financial institutions. Both of these provisions may become increasingly relevant to banks affected by the economic problems of the agricultural sector.

The new worth capital certificate has been widely used by the thrift industry, particularly the mutual savings banks. While commercial banks have been eligible for the capital certificate program, two statutory restrictions have made it virtually unused by banks. The restrictions thwarting bank use are the requirement for having 20 percent on an institutions assets in residential mortgages and the requirement that a bank's capital be below 3 percent and that the institution experienced earnings losses for the most recent two successive quarters.

Given the extensive use of the net worth capital certificate program by savings and loans and mutual savings banks, ABA recognizes the strong appeal to the Congress to extend the net worth capital assistance program as provided in H.R. 683 and H.R. 913. Congress, in enacting the capital certificate program, wisely provided for a three year sunset provision in order to evaluate the need for continuing the program and making any mid-course corrections.

ABA recommends Congress consider several changes in the overall net worth capital assistance program. The unfortunate situation that has developed with state-insured savings and loans in the state of Ohio shows that the public perception of confidence in the thrift industry is intricately linked to confidence in our commercial banks. Many press reports on the closing of these savings and loan institutions indicated that it was a "bank holiday" and suggested that banks in Ohio were closed, when in fact no commercial bank in the state of Ohio was affected either by the "holiday" or is insured by the state of Ohio.* Reluctantly, commercial bankers recognize that the term "bank" is generically used in our contemporary society to describe not only the 14,000 full service commercial banks, but also the 3,500 savings and loans and federal savings banks, and in agricultural communities—even the Farmers Home Administration and the Farm Credit System.

While everyone seems to want to use the name "bank" in their title, and we do accept the view that imitation is the sincerest form of flattery, the reality of our legal situation, as this Committee knows, is that commercial banks are treated in many ways more stringently than our competitors.

The net worth guarantee program, for example, is a clear case in point. Bank regulators have traditionally emphasized the need for capital. Recently, all three bank regulatory agencies have published regulations to increase the amount of capital required for banks. Meanwhile at the Federal Home Loan Bank Board, although Chairman Gray has committed the Agency to increasing capital standards for the thrift industry, the fact remains that the vast majority of their capital comes from net worth guarantees, so-called regulatory accounting principles and "good will". In the marketplace, thrifts using net worth guarantees are aggressively competing with banks for deposits and loan business. Clearly, the institution which does not have to buy its capital in the marketplace or retain it out of earnings, has significant competitive advantages.

ABA, therefore, strongly recommends changing the net worth certificate program to remedy what we perceive as inequitable operating advantages in the present structure of the program. Specifically, we support a statutory requirement that thrifts achieve the same capital and accounting standards over a reasonable period of time as required of commercial banks. If the term "bank" is to be freely used in the public marketplace as a marketing tool by institutions unchartered as commercial banks, we believe that the public should not have to guess about the capital standard of one type of institution versus another. While we recognize that it will take many years for the thrift industry to achieve the same capital level of banking, many individual savings and loans institutions not involved with using capital certificates already have capital levels in line with the commercial banks with which they compete. It is unfair that well-capitalized banks and thrifts alike should have to compete against institutions that are under no mandatory requirement to increase their capital position.

It has, also, been suggested by the Independent Bankers Association of America along with several Members of Congress that the capital certificate program be broadened to include banks with significant agriculture loan portfolios. There is certainly merit to this proposal in that banks who extended credit to their farm customers are not materially different from institutions which provided mortgage credit to American home buyers. Our national policy has a long tradition of encouraging financial institutions to lend to American families to buy a home or operate a farm. It is also the view of our Association that use of net worth certificates undermine the principal of private capital adequacy. Our preference as indicated is that the rules for adequate capital be equitably applied among banks, thrift institutions, and other financial entities such as the members of the Farm Credit System. To the degree that Congress determines that because of a lender's involvement in mortgage or farm lending, it should be temporarily dispensed from sound capital requirements, we have no objection to qualifying agriculture banks for eligibility in the net worth program.

CLEAR TITLE FOR AGRICULTURAL PRODUCTS (S. 744 AND H.R. 1591)

Mr. Chairman, let me say at the beginning of my testimony on these bills pertaining to the farm products exception of the Uniform Commercial Code that the ABA appreciates the fact that Congressmen Gunderson and Stenholm, Senators Cochran and Boren, and others, as well as representatives of various groups supporting this bill have indicated a desire to meet with us to work out a compromise on this very important issue. However, the bills that have been introduced are not a compromise position. Let me discuss the current legislation and American Bankers Association's compromise proposal.

It is true that the bills do not simply eliminate the farm products exception. However, it would shift the burden of notification to the lenders who will not only have increased paperwork but also could never be sure that the list of potential buyers provided by a farm borrower would indeed cover the final, actual buyer of the farm products against which the original lien was placed. Also, there are no provisions in the bill enumberating specific sanctions against the farm borrower who sells a farm product against which a lien is pending. Therefore, the effect of these bills would be almost the same as eliminating the farm products exception altogether.

Our Association believes that the removal of the farm product exception is an attempt to equalize the buyers of farm products with other purchasers of "inventory" which overlooks both the historical rationale for the exception and the real commercial difference between financing farm production and other types of business inventory.

With respect to the historical development of the farm products exception, it should be noted that the provisions of section 9-307(1) protect buyers from liens when a businessman or woman sells stock in trade in numerous small transactions to a great many anonymous, financially unsophisticated buyers. In the course of this business, the seller uses the proceeds from these transactions to replenish the inventory in order to make further sales.

Unlike the situation just described, the farmer's "stock in trade"—his livestock, grain or other produce—is the product of a biological production cycle which is financed by the lender's credit. The creditor's loans are used to produce (e.g. grow grain, fatten livestock, etc.) the items which the farmers eventually sell. These farm products usually represent the lender's only security for his loans. When the products are sold, the proceeds are generally not used to purchase more "inventory" for the farmer to sell but to retire the loans which produced the collateral sold. If the proceeds are not used in this manner, the lender loses the proceeds and the best means of satisfying the loan. Without the farm products exception, agricultural lenders would be without one of the most effective means of ensuring payment of their loans.

In addition, unlike typical sales of inventory, farm products are generally sold in bulk transactions to a few sophisticated buyers. These buyers are aware of the methods of financing farm production and, therefore, do not need the protection afforded to other purchasers by section 9-307.

Finally, depriving the agricultural lenders of the benefits of the farm product exception would put these lenders in a less favorable position under the Uniform Commercial code vis-a-vis other financers of inventory. While the Bulk Transfer provisions in Article 6 of the UCC protect, for the most part, lenders who finance inventory from unauthorized transfers of that inventory by their borrowers, farm lenders fall outside the provisions of Article 6 because most farmers sell farm products in bulk and Article 6 only applies to enterprises whose principal business is the sale of merchandise from stock.

I would now like to turn from the rationale for the farm products exception to address some of the major complaints raised by the purchasers of farm products. First and foremost is the so-called problem of "double jeopardy", the notion that a buyer is forced to pay twice because the farmer failed to apply the proceeds of his sale to satisfy the lien on the products. The intent of our Association is certainly not to belittle the difficulty faced by a purchaser who must pay twice. However, the "problem" of double payment is certainly avoidable under the present financing scheme of Article 9 (which is enacted in all states but Louisiana). By checking for liens recorded by the lender, purchasers of farm products are in a position to protect themselves from the possibility of double jeopardy. While searching for liens may entail some effort on the part of buyers, it is certainly not any more burdensome than the task faced by creditors when creating the liens. And as I will discuss, many states, through recently enacted legislation, are moving to decrease the burden on purchasers by making it easier to discover the existence of outstanding liens.

As this Committee is aware, the area of secured lending is a matter which has been traditionally left to the states. The enactment of Article 9 of the UCC in 49 states illustrates the commitment by the states to stay abreast of the changes in this technical area of the law.

Moreover, the legislative activities in a number of regions of the country during recent years demonstrate that the states have a firm grip on the situation facing the buyers of farm products. A number of states have enacted legislation which in some way addresses the complaints made by the buyers. Several solutions include centralized filing of liens, 24-hour access to filing information, certification by the seller to the buyer regarding the existence of liens and other safeguards for prospective buyers.

The American Bankers Association opposes any efforts to eliminate the lender's ability to rely on perfected agricultural liens to enforce debt obligations. The removal of this protection, as proposed in H.R.1591 and S.744, would have the effect of substantially reducing the willingness of creditors to lend to farmers. In order to attain the same level of protection against default which is provided by the farm products exception, lenders would be forced to seek more collateral for their loans or to lend only to those farmers who qualify for unsecuredloans. In either case, the cost of credit would increase while the overall amount of available farm credit would be reduced. Some high risk farmers will be unable to obtain credit from traditional credit sources. These bills, while grantingpurchasers of farm products protection, would punish a great number of lenders and honest farmers for the acts of the few unscrupulous agricultural borrowers who do not repay their loans.

The American Bankers Association understands that the growing and rapidly changing marketplace for agricultural goods has created complexities for both lenders in knowing the purchasers of their borrowers' products, and buyers in discovering the existence of recorded liens. This is why the ABA's Agricultural Bankers Division, through our Government Relations Task Force on Agriculture, has developed major technical adjustments to the Uniform Commercial Code's "Farm Products Exception".

The six major provisions work in the following manner:

(1) When a borrower takes out a loan, the lender provides a certificate to the borrower stating the existence of a lien, signed by both parties, on which the penalties for violation of the law are stated.

(2) At the point of sale, the buyer requests from the seller a certificate stating there is no lien on the farm products to be bought. Upon receipt of the certificate, if the buyer issues a multi-party check listing the lien holders, the buyer may take possession of the property free of security interests.

(3) If the seller has no certificate, the buyer should receive a written statement that no lien exists against the farm products to be purchased, and retains it on file for two years.

(4) If the buyer receives a written statement that no lien exists at the point of sale, he may take possession of the property with no security interest.

(5) The statute of limitation for action by the lender, under our proposal, is reduced from five to two years.

(6) Our proposal calls for stringent criminal penalties for fraud as well as transacting a loan of this nature during bankruptcy proceedings.

We believe this approach offers a balance and equitable sharing of responsibility between seller, lender, and buyer. ABA looks forward to working with this Committee and other Senators and Congressmen towards a reasonable compromise on this proposal.

FEDERAL CROP INSURANCE CORPORATION

The Federal Crop Insurance Corporation (FCIC) is considering the feasibility and advisibility of providing insurance to producers of agricultural commodities through the underwriting of policies sold by commercial companies rather than through its present direct insurance operation. In essence, the FCIC would become a reinsurance company. This conversion would be stimulated by the recent dramatic increase in the volume of crop insurance sold through reinsured commercial companies.

Our Association supports the FCIC in this reassessment of the effective and efficient use of taxpayer dollars. The proposed shift to the private sector will help to more efficiently deliver crop insurance to America's farmers, which in turn, will maintain and enhance the competitive viability of agricultural lenders. Private insurance companies are often more in tune with the particular needs and risks associated with a localized geographic area. Giving private insurers a greater percentage of the primary insurance business will result in more effective, more "tailored" coverage.

While our Association embraces the FCIC's proposal, we offer our support with one caveat. The FCIC must take care to assure that it's departure as a primary insurer does not leave gaps in coverage. Private reinsured insurance companies must be prepared to serve all producers in all counties, with approved programs. Crop insurance must be actuarily sound, provide reasonable premiums, and be available in all areas of the United States.

BANKRUPTCY

Though the bankruptcy statutes are not under the Agriculture Committee's jurisdiction, the Committee should be aware of pending legislation. Agricultural bankers are just as dependent on farmers for repayment of their loans as the farmers are on the bankers for their crop financing. The symbiotic nature of this relationship and the direct impact that farm bankruptcies have on viability of farm lenders, must be kept firmly in mind during the analysis of these proposed bills. Any proposal that attempts to shift an inordinate portion of the economic burden to the bank is not a viable approach since the net effect will be to jeopardize both the viability of agricultural banks, and the continued availability of financing for all farmers. Currently two bills have been introduced in the House which would allow farmers to file under Chapter 13 as well as the widely used Chapters 7 and 11.

A key factor that needs to be considered is the precedential value of establishing another limited constituency with special rights in bankruptcy (municipalities, railroads, etc.). Each of these groups is fairly limited in number, has unique characteristics, and longstanding public policy reasons behind their special status.

We must also consider the individuals who would be affected by the legislation, the "family farmer", and ask whether these farmers generally have a regular income, for whom Chapter 13 was designed, or more like a business, for whom Chapter 11 was designed.

It has been my experience that farmers with up to a million dollars in debt are generally of a size that they are and should be considered more like businesses than family farms. Even though the farm may be the sole or primary income for the family, the farm itself needs to be, and is in most cases, run like a business. That being the case, we strongly question whether or not we should try and "shoehorn" agricultural businessmen into a form of bankruptcy designed for wage earners.

If Chapter 11 of the Bankruptcy Code was designed to handle the business bankruptcy and now presents deficiencies specifically related to the family farm business, we wonder whether it wouldn't be better to attempt to address the deficiencies within Chapter 11? Finally, we need to remember that the ink is barely dry on the 1984 amendments to the Bankruptcy Code.

One problem of which any participant in the bankruptcy process must be aware is the acute shortage of bankruptcy judges. In any bankruptcy, time is of the essence. It is imperative that the reorganization or liquidation process be commenced rapidly, yet many times cases take months to be heard. Expediting this process would certainly be a great help.

FOOD STAMP HANDLING CHARGES

Let me briefly address bills introduced by Congressman Panetta and Senator Durenberger which wouild prohibit financial institutions from charging retail food stores service charges for redeeming food stamps. Food stamp processing costs to banks have risen in recent years as have virtually all other bank costs. In addition, deregulation of deposit interest rates has made the provision of free services of under-priced services by the banking industry much less widespread than in past years. The increase in interest costs on the industry has resulted in intense pressure on the spreads between interest earned on loans and that paid on deposit accounts. As a consequence, banks have been forced to increase their charges on the products that they sell to begin to recover the costs of these products. As a result, today many merchants are experiencing new or increased costs for their food stamp deposits. Our Association believes that virtually all of these increased charges are directly related to banks' increased processing costs and are in line with increased charges imposed on deposits of cash and checks.

ALTERNATIVE MINIMUM TAX

Tax issues, I realize, are not under your Agriculture Committee's jurisdiction. However, I want to comment briefly on a serious problem facing agriculture which directly affects farmers, agricultural suppliers, and lenders. That issue is an artificial or "paper" equity gain through inflation which results in large capital gains at the time of a farm liquidation.

If the farmer makes a decision to voluntarily deed the property to the lender or voluntarily sell the property, he can create a very large paper capital gain between his original sale price and the asset's present value. In today's environment, the debt often equals or exceeds the value of the assets. In reality, he has made no capital gains profit. However, the IRS does not see it that way.

Consequently, to avoid the potential IRS tax, the farmer files bankruptcy. All parties affiliated with the banker lose in this situation—the lenders are involved in extensive negotiations with asset values continuing to decline, the federal bankruptcy courts are caught in processing additional caseloads, and the farmers are placed in untenable no win situation.

When a farmer's loan debt exceeds the current value, the federal government in many cases would be better to forego the unrealized capital gains and move the asset to another operator with a positive cashflow situation.

CONCLUSION

American Bankers Association supports the goal of reducing government's role in agriculture. Nevertheless, with today's fragile agricultural economy, any rapid and major shift to market orientation, or significant decline in price and loan support levels could be disastrous, especially in the central grain producing states. Farmers, agricultural suppliers, and creditors must be given time to adjust to the current environment of deflation of assets, high real interest rates, and the over-priced dollar.

ABA encourages additional emphasis on export incentives for farm commodities versus the heavy reliance on internal supply controls. To maintain a strong American agricultural sector, new and expanded foreign markets must be encouraged and developed.

To provide farmers with ample long-term credit at reasonable rates and terms, an agricultural secondary mortgage market for commercial banks should be given serious consideration.

While agricultural lenders can not provide credit to all farm borrowers under current economic conditions, ABA supports the movement by USDA to move FmHA from direct loan programs to a guaranteed loan program. Today, many FmHA borrowers are potential sources for commercial loans and with a reduction in the overall FmHA direct loan program, less federal tax dollars are needed.

In order to resolve the lack of confidence regarding the collection of the FmHA guarantees in the event of default, we believe that procedures must be modified for more expeditious payment with fewer complicating restrictions. The common perception that guarantees through FmHA are not collectable or at best undesirable due to the required complete liquidation of assets prior to any disbursements must be addressed. If the guarantee must be exercised and the lender has followed prudent lending practices, then FmHA should reimburse the lender to the full extent of the guarantee. A procedure for liquidation similar to that offered under the Small Business Administration guaranteed loan programs should be implemented allowing for early disbursements of guaranteed proceeds based on expected liquidation values.

As I stated earlier, ABA strongly favors USDA and Congress reducing the subsidized interest rates to FmHA direct borrowers. All farmers should be competing on equal footing to receive agricultural credit.

Mr. Chairman, I am deeply troubled about the lower one third of the American farm economy: its structure, its existence during the next few years and the impact of its instability on rural communities and banking. Our ABA survey, which is attached, completed in January of this year stated that bankers would be unable to extend additional credit to 15% of their farmers this year based on existing conditions. Of course, this survey was conducted prior to the additional changes in the FmHA guarantee program announced in February and March 1985.

Let me expand briefly upon the 15% group and where they are today: Five percent have left or are in the process of leaving farming. Five percent are now obtaining financing through FmHA, other local creditors, or seed and fertilizer dealers. And five percent are still attempting to survive.

My biggest concern today as this agricultural evolution continues are the legal entanglements which are growing at an alarming rate. In this scenario, local community support for agricultural lending and particularly the banking industry is not strong.

Let me give you three recent examples which make my case.

A bank near my hometown in Iowa is currently in a foreclosure proceeding on a $650,000 loan. The farmer has filed a counter suit against the bank for $6.5 million citing fourteen counts where the bank failed to provide adequate supervision and credit.

In another instance, a farmer sued a bank for $5 million claiming bad advice on a marketing procedure. The court awarded a $1 million settlement to the farmer.

Recently, a farmer sued a bank for not completely honoring a verbal agreement for a loan advance. The farmer was awarded $70,000. These three cases, if the decisions rendered are not reversed, set a dangerous precedent and will no doubt have a great impact on the ability of all agricultural lenders to provide credit.

A large majority of FmHA loan guarantees written in the last few months have been based on the extension of current farm programs. In many cases the debt restructuring has been rescheduled over 15–30 year paybacks. What will be the status of the USDA guarantees if the farm economy continues to decline?

Mr. Chairman, Members of the Committee, the ABA will continue to work with you as you address the important task of developing the 1985 Farm Bill. We are committed to working with our farm borrowers and with you, Members of Congress, to develop and to implement effective credit program that will contribute to a long term, profitable agricultural economy. It will not be easy. The current economic situation of agriculture has resulted in a constant focus on short term responses to pressing needs in particular sections of the country. We must all step back and look at the longer range and the bigger picture. As you do that through legislation leading up to the 1985 Farm Bill, we at the ABA will provide you with input, reaction, and support for programs that contribute to aiding the most productive agricultural economy in the world.

I thank you for the opportunity to testify before you today. I will be pleased to answer any questions you may have.

STATEMENT OF MELVIN TODD, JR., MEMBER, BOARD OF DIRECTORS OF THE FARM CREDIT COUNCIL AND MEMBER, BOARD OF DIRECTORS OF THE FARM CREDIT BANKS OF OMAHA

Thank you, Senator. I am Melvin Todd Jr., a farmer from Union, Nebraska, and a member of the board of directors of The Farm Credit Council. I am pleased to be here today to speak on behalf of the Council, which is a federated national association of the Farm Credit banks, associations and other cooperative farm lenders throughout the country.

With some $80 billion in loans presently outstanding to over a million of our nation's farmers and their cooperatives, these institutions perform a vital role in assuring a reliable source of sound and constructive credit for American agriculture. Never has this role been more important than it is today during this critical period for our farm economy.

In times like these it is not easy being a farmer. I know that, because as I said, I am a farmer—and I am the fourth generation on our family-owned, 1200-acre diversified grain and livestock operation. My two sons, Mike and Gary, work on the farm also, and they represent the fifth generation on this land. So you can see I have a real and personal stake in farming.

In times like these I can also tell you that it is not easy being a farm lender, either. I know about that, too, because I have been a director of the South Omaha PCA and am a member of, and the immediate past chairman of the Omaha District Farm Credit Board. In addition, I am a member of the Lincoln, Nebraska, Federal Land Bank Association.

Credit is the most important tool in my farming business. My PCA and the Farm Credit System of which it is a part must be kept strong. It is the access that I and my neighbors have to the nation's money market. Without apology, I am concerned about preserving the strength of those institutions as well as their vital access to the agency market.

Accordingly, I want to voice concern about an issue that relates directly to the budget debate proceeding on the floor of the Senate. The President's budget for fiscal year 1986 contains a recommendation that the Congress enact legislation to impose a user fee on the Farm Credit System and all other government sponsored enterprises. The Budget Resolution reported to the full Senate two weeks ago assumes budget savings derived from the imposition of such a user fee and that assumption remains in the latest compromise. According to the budget documents, "the purpose of this fee is to reimburse the Federal government for the privileges these enterprises enjoy as a result of their relationship with the government."

We strongly oppose this tax on farmers. The government is not "out-of-pocket" by any amount for the System's agency status. From the fee, the government would get new revenue. But the farmers who own and use the System would get absolutely nothing in return. Of greater concern, however, is that this fee is expressly prompted by OMB as a critical first step in its strategy to oust farmers from the agency market by increasing the fee over time.

Mr. Chairman, these institutions are owned by almost a million farmers and ranchers who depend upon them for vital credit. It is unthinkable that particularly in this time of severe stress, any serious consideration would be given to a measure that would add further to farmers' cost of credit or otherwise frustrate their access to a dependable supply of credit. Finally, I call to the Committee's attention the recent report of the Comptroller General in which he concludes that a user fee on the Farm Credit System would be inappropriate.

Let me next touch briefly on several issues regarding the Farmers Home Administration, specifically the Debt Adjustment Program, or DAP as it has come to be known, and several changes in FmHA's farm programs. Certainly, we welcomed several revisions in DAP which have expanded its usefulness for farmers and their lending institutions. Unfortunately, now that the program has been revised we have run into another roadblock. In order for farmers to restructure long-term debt, adequate funds must be available for the guaranteed farm ownership program. However, to date, the Administration has released only $50 million for this program even though Congress has made $250 million available. We would hope that you would explore this issue with the Administration so that additional farmers can get their long-term debt restructured.

Let me turn briefly to the Reagan Administration's credit proposals for the 1985 Farm Bill. In summary, the Administration is proposing to remove the Farmers Home Administration from the direct lending business and turn to guaranteed loans—at a reduced level of guarantee—to pick up the slack.

According to a recent report issued by the General Accounting Office, the Farmers Home Administration has 267,252 farmer borrowers. A little over 153,000 of those borrowers were delinquent on their loan payments as of July 20, 1984. With the conditions in agriculture certainly not having improved since then, I would venture to say that the number of delinquent FmHA loans has increased over the past eight months. Approximately 100,000 of FmHA's borrowers have been delinquent for more than one year.

The Administration proposes to either sell or transfer to commercial or Farm Credit System lenders existing operating and ownership loans on terms set by the Secretary. Looking at FmHA's loan portfolio as I just described it, our response to the Administration's proposal is "no thank you."

The Farm Credit Council believes that the Farmers Home Administration has a vital role to play as a "lender of last resort." The Council believes that FmHA must have sufficient loan funding and personnel to meet the legitimate needs of those agriculture producers who are unable to qualify for credit from private commercial or cooperative sources, but who have a reasonable prospect for success in farming. Working from that policy base, we oppose what the Administration has suggested.

The major topic I want to discuss with you this morning is the continuing deterioration in farm financial conditions, the impact of these conditions on farmers and the financial institutions that serve them and the continuing decline in farm asset values that is making these conditions even worse.

Farm lenders must be concerned not only with the borrower's ability to repay but also the value of the collateral pledged. Prior to 1981, when asset values were increasing, lenders were able to stay with farm borrowers despite some financial difficulties so long as collateral margins remained intact.

Those days are gone. Today, not only has the income situation failed to improve (See Table 1), but the value of farm assets have declined as well. Not since the 1930's have we seen such a dramatic and prolonged period of decline in farmland values (See Table 2). The decline has continued unabated for the last four years—with some areas of the country having experienced as much as a 50% decline in land values in that short time. Nationwide, using 1967 constant dollars, the value of farm assets declined by almost $80 billion by the beginning of this year and we are aware of no one who is predicting that, if left unaddressed, this trend will reverse itself in the near future (See Table 3).

Two recent publications clearly illustrated the extent of the financial problems in agriculture. According to USDA's report entitled "The Current Financial Condition of Farmers and Farm Lender," as of January, 1984, there were 143,000 farm operators that were either financially insolvent or were experiencing what USDA termed "extreme financial problems." These were individuals with debt-to-asset ratios greater than 70%. Projecting that data forward to 1985, USDA predicted a 40% increase in the number of farms with extreme financial problems. If we add that group to those farmers with debt-to-asset ratios between 40 and 70%—most economists are using the 40% debt-to-asset ratio as the threshold of financial stress among farmers—the total number of farms experiencing financial difficulty would increase by 60% between 1984 and 1985. (See Table 4).

Crucial to our discussion, however, is the fact that these highly stressed individuals owe two-thirds of the farm debt (See Table 5) and control about $100 billion of farmland, a major portion of which might very well have to be liquidated over the next 24 to 36 months should conditions not improve. Because USDA estimates that it would take commodity price increases of greater than 30% to help solve the financial problems of these farmers through higher incomes—an increase which seems unlikely at this point—we obviously must look beyond just farm income to address the financial problems farmers are experiencing.

Unfortunately USDA's projections for 1985 are generally confirmed by the Farm Journal survey conducted in January of this year. The Farm Journal survey found close to 30% of the farm operators to have debt-to-asset ratios greater than 40%. But of particular note, however, is that these financially stressed individuals owed close to two-thirds of the farm debt and held about one-quarter of all farm assets.

Because of the importance of this data, The Farm Credit Council helped support a further analysis of the data by the Food and Agricultural Policy Research Institute (FAPRI) co-located at the University of Missouri and Iowa State University. The Institute completed the initial analysis of the Farm Journal survey data. We asked the FAPRI economists to project what might happen to the financial condition of farmers between 1985 and 1986 under various economic scenarios.

Under an optimistic scenario for farm income where land prices hold their present value, and with interest rates at 10 percent, some $50 billion in farm assets may have to be sold by farm operators if they are to fully service their remaining debt. According to the FAPRI report to be released next week, even with the liquidation of these assets, 2 percent of the agricultural debt of $4.2 billion may have to be written off. That's the optimistic scenario.

Should things deteriorate, so that income levels decline, asset values fall to 65 percent of their current value and interest rates hover at 10 percent, FAPRI economists project roughly $165 billion in farm assets will have to be sold by farm operators in order for them to fully service their remaining debt, and 8.5 percent or about $18 billion of farm debt may have to be written off. This data is startling to say the least. To better understand the impact of what might happen, we asked the economists to take the analysis one step further. We asked them this question: what will the impact be on not only those who deal directly with agriculture, but upon the nation's economy as a whole, if as much as 4 percent of the farm debt had to be discharged—and remember that 4 percent figure is less than half of FAPRI's prediction for the worst case scenario. Their response was that a 4 percent loss on all farm debt would result in an estimated loss of $7.3 billion in personal income, $21.7 billion in lost output and a loss of more than 500,000 jobs.

A key variable in this scenario, which if held stable can make a major difference in its outcome, is the value of farm assets. But with nothing in place to stabilize asset values and with this analysis concluding that even under the best of circumstances as much as 10 percent—or three times the normal amount of farm assets—will find their way onto an already glutted market, there is a real threat of a radical downward spike in farm asset values. Some mechanism must be put in place to prevent that from occurring.

We suggest the formation of a federally chartered corporation that would purchase real property directly from financially distressed farmers who are in need of restructuring their farming operation and, in addition, purchase inventoried property from lenders. This corporation would extend credit to no one. It would not be a dumping ground for nonperforming loans or a foreclosure agent. Quite the opposite.

By giving hard pressed farmers a place to sell a portion of their property, it would give them a restructuring option not readily available to them today because of a lack of buyers for farm assets. A farmer who sells property to this entity and his family would retain a right of first rental. He would be protected against the sale of his property by the corporation for a period of three years, after which he would retain the right of first refusal on the sale of the property by the corporation for a period of two more years. In addition, it would permit lenders to move inventoried property out of their portfolios thus reducing their operating costs and permitting them to pass these savings on to their customers in the form of lower interest rates. These features are clearly designed to slow financial deterioration for farmers who have a reasonable chance for survival and permit them to get back on their feet.

The Agricultural Conservation Corporation, as we have named this entity, would have the following key features:

It would be a federally chartered, limited life (10 year) corporation.

It would be empowered to buy land (not loans) from willing sellers—including financially distressed farmers, lenders and the Farmers Home Administration.

The corporation would be managed by a board of directors and advised by local committees on such matters as local real estate market conditions and the eligibility of farmers to participate in the program.

The corporation would capitalize itself through the issuance of government guaranteed debt as well as through mandatory stock purchases by those who sell property to it.

The operating expenses of the corporation would be supported from income generated by leasing acquired property or through government payments in return for the corporation holding property out of production. Operating costs that exceed this income stream would be restored by the government.

The government would hold first claim to any operating gains and any gains on the sale of real estate by the corporation in order to recapture the operating subsidy it provides.

Finally, the Secretary of Agriculture would be authorized to declare any property held by the corporation as fragile or highly erosive land. Any such land sold would be done so with deed restrictions or covenants that would assure its appropriate use in the future.

What would the cost of this program be to the Federal Government?

Quite frankly, Mr. Chairman, that depends on a lot of factors, but the best we can determine is that over its ten year life, the operating subsidies needed by the corporation would be approximately $1.5 billion. Let me hasten to point out, though, because of the subsidy recapture provisions built into this concept, to the extent the value of farmland recovers over the next ten years that operating subsidy will shrink dramatically. In fact, we estimate that a 10-12 percent inflation factor on the ACC's total property holdings over the next ten years might be all that is needed to offset the cost of the government's operating subsidy.

The major point I want to make is that the precipitous decline in farm asset values has contributed heavily to the financial decline of many family farmers. What we are recommending is a bold approach to address that problem. We are not wedded to all of its details, but we feel strongly that both the problem and a solution to it must be front and center if there is to be any success in returning agriculture to a position of financial strength.

We firmly believe that in responding to the current farm crisis, the Congress' first goal should be to slow the deterioration in the financial condition for those who still have a reasonable chance for economic survival. The formation of an Ag Conservation Corporation would go a long way towards achieving that goal.

Mr. Chairman, I would like to call on Mr. Gene Swackhamer to address additional issues of concern to Farm Credit. I will be happy to respond to any of your questions.

Table 1

FARM FINANCIAL CONDITIONS

1940 – 1985

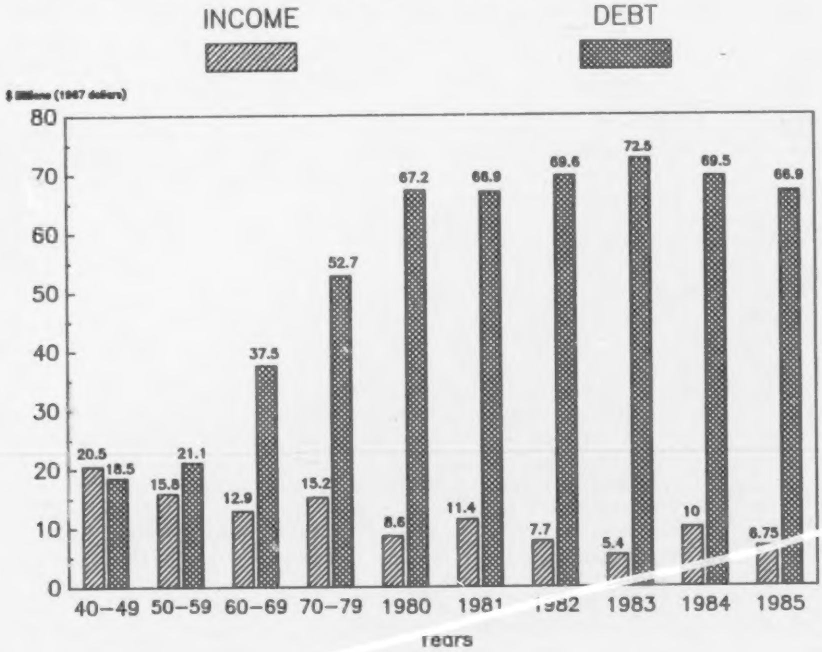
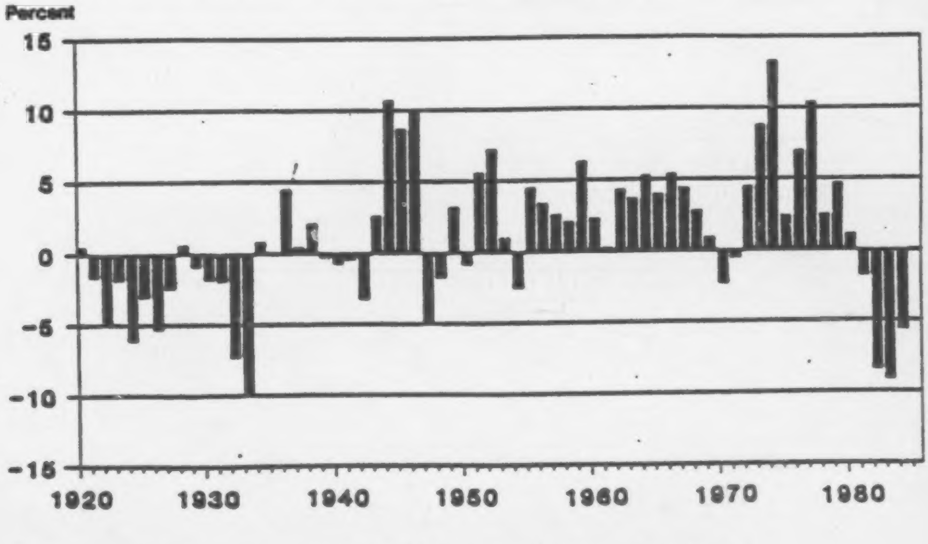


Table 2

Change in Real Value per Acre from Previous Year



Reported as of March 1, 1920-75, February 1, 1976-81, and April 1, 1982 to date. Excludes Alaska and Hawaii.
The indexes of real farmland value have been computed by dividing the nominal land value indexes by the Consumer Price Index.

Table 3

FARM FINANCIAL CONDITIONS
1940 – 1985

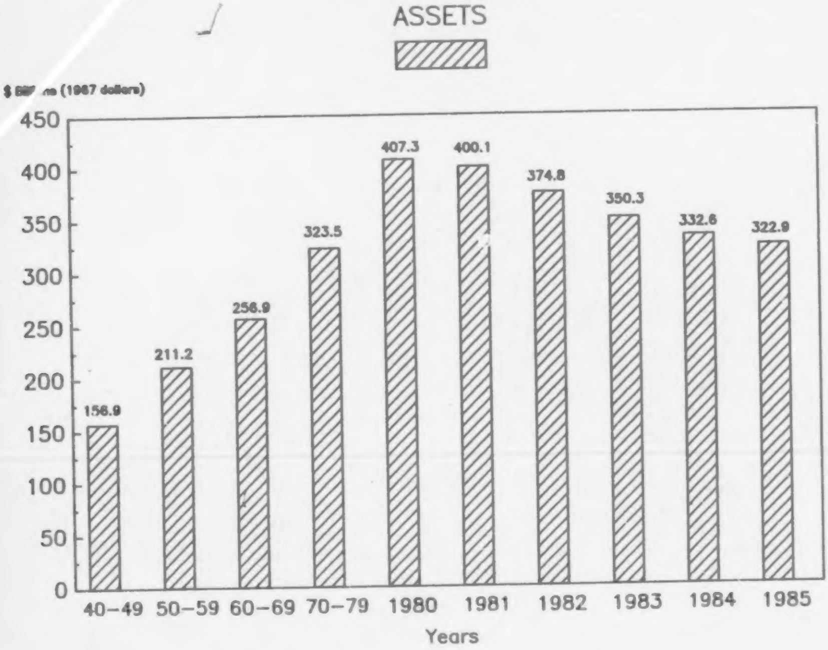


Table 4

NUMBER OF HIGHLY LEVERAGED FARMERS

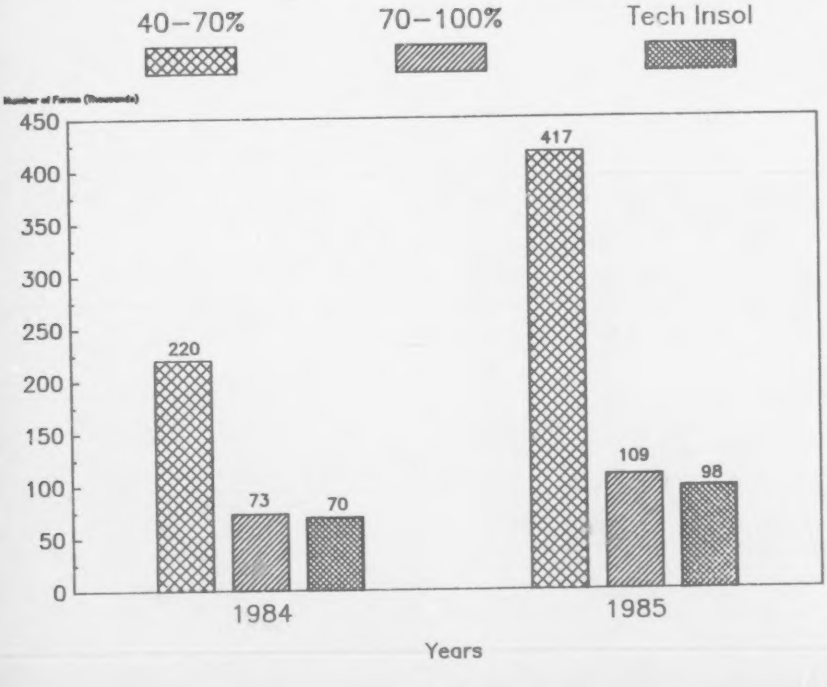
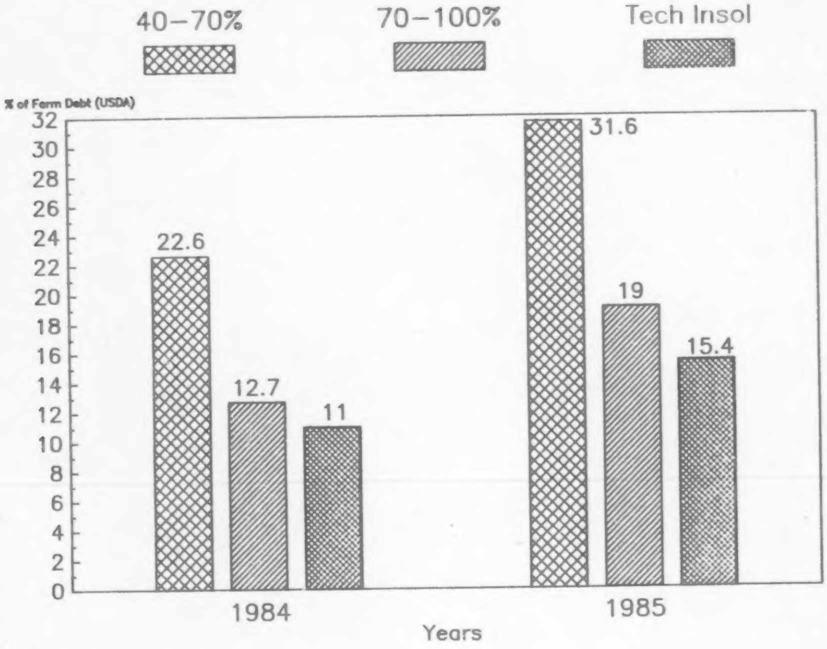


Table 5

PERCENT OF FARM DEBT HELD BY HIGHLY LEVERAGED FARMERS



STATEMENT OF GENE SWACKHAMER, PRESIDENT OF THE BALTIMORE DISTRICT FARM CREDIT COUNCIL AND CHIEF EXECUTIVE OFFICER OF THE FARM CREDIT BANKS OF BALTIMORE

Mr. Chairman, I am Gene Swackhamer, President of the Farm Credit Banks of Baltimore and also President of the Baltimore District Farm Credit Council. I too am pleased to appear before this Committee today in behalf of The Farm Credit Council. Mr. Todd has addressed himself to credit conditions and alternatives from the Farm Credit perspective. I would like to address several additional issues concerning the subject of Agricultural Credit.

S. 466 FCA POWERS

First, Mr. Chairman, I would like to comment on S.466 which raises important issues relating to the role and regulatory powers of the Farm Credit Administration (FCA). S.466 would expand FCA's enforcement powers to include powers similar to those of other Federal financial institutions' regulators.

Through introduction of S.466, Senator Zorinsky has asked how the Farm Credit Administration can best protect the public interest in the safety and soundness of the System. We applaud the Senator for raising this very important and very timely issue. We are especially pleased to have this opportunity to address that issue in the context of S.466.

The Farm Credit Council is on record in support of an effective and efficient regulator for institutions of the Farm Credit System. We support the need for appropriate FCA regulatory authorities. However, we can only support S.466 with modifications I will attempt to describe. In its present form, S.466 would grant powers that are substantially broader than those held by other Federal financial institutions' regulators. Further, we believe that the appropriate additions to FCA's enforcement powers should be determined in consideration of FCA's unique role and its present authorities as both regulator and supervisor.

CEASE AND DESIST AUTHORITIES

We concur generally in FCA's need for authority to issue temporary and permanent cease and desist orders. However, we note that the proposed new Section 4.37 of the Act would provide for civil fines of up to $1,000 per day for violations of final orders of FCA issued pursuant to the Act. This much is consistent with the authorities of other regulators. But, unlike the enabling statutes of other regulators, S.466 goes further to provide that without any final order, the same fine may be exacted for violations of the Act and regulations. We believe that civil penalties of this sort should be reserved for conduct in violation of specific and final orders and should not be imposed for violations of more general statutory or regulatory provisions.

DIRECTOR/OFFICER REMOVAL

The Council concurs in FCA's need for authority to remove officers and directors of System institutions on bases comparable to those on which other Federal financial institutions' regulators may take similar actions. The proposed new Section 4.33 of the Act provides for removal of officers or directors who, through "negligent, willful or continuing disregard for the safety or soundness of the institution," violate the Farm Credit Act or regulations or engage in unsafe or unsound practices so as to cause material loss or to allow the officer or director to profit finacially from such conduct. The enabling statutes of other regulators, however, omit the word "negligent." In this way, the other statutes acknowledge the business judgment rule under common law. Under the rule, the court will generally not substitute its business judgment for that of the officer or director in question where ordinary negligence is involved. The rule is grounded upon the need for officers and directors to exercise their best judgment in good faith and without fear of removal for what, in hindsight, might someday appear to others to be ordinary negligence. The wisdom of that rule is no less valid for Farm Credit institutions than for other businesses, including other financial institutions. We believe the bill should be amended to permit system directors and officers the benefit of the business judgment rule, the same as is afforded directors and officers of other financial institutions.

PERSONAL LIABILITY

The Council opposes inclusion of new Section 4.43 in its present form. Apparently patterned after a similar provision pertaining to Directors of National Banks this section would hold System officers and directors personally and individually liable to the full extent of any damages to the institutions, the shareholders or any other person, for any violation of the Farm Credit Act or any FCA rule or regulation. This provision is, nevertheless, without parallel among the enforcement powers of any financial institution's regulator: the national bank statute imposes such liability only upon directors and then only in the case of conduct so severe as to result in a forfeiture of the institution's franchise, which would require a determination in the Federal District Court. The net result is that the scope of personal liability under S.466 is much broader both as to circumstances and personnel. We can think of no justification for a broader scope of liability in the Farm Credit setting than in other areas of regulation.

FORFEITURE OF FRANCHISE

The proposed Section 4.38 of the Act provides that if the directors of a System institution knowingly violate or allow others to violate the Act or regulation, that institution may be required to forfeit its franchise if the violation is adjudged in the District Court. Although similar authority is found among the powers of the Comptroller of the Currency, we question whether this enforcement power is appropriate in the Farm Credit setting. The impact of losing a national bank franchise would fall more heavily upon individual bank investors who elect the bank's directors and less heavily upon the public which would likely have any number of other banks of the same type and in the same area from which to obtain comparable services. But, the reverse would be true if, for example, a district Federal Land Bank were to lose its franchise. We believe this provision is excessive as well as inappropriate in the Farm Credit context.

MERGER AUTHORITY

The Farm Credit Council opposes Section 3 of the bill which would greatly expand FCA's authority to compel mergers of like banks and associations. In addition to deleting the present requirement that the merger have the approval of the district board, S.466 would permit FCA to require a merger when the merger would be "in furtherance of more efficient and effective service to borrowers." The term "efficient and effective service" leaves open the opportunity for unchecked and arbitrary mergers of banks and associations without even the concurrence of the district board. We find no parallel for such laying aside of shareholder prerogative among the authorities of other regulators. Although other agencies may offer various incentives or propose various sanctions with respect to ailing institutions which may precipitate a merger, no other regulatory agency wields the statutory power to potentially force a healthy institution to assume the liabilities of an insolvent institution. While recognizing that in extreme situations an insolvent institution may be required to merge, we believe it would be blatant overreaching to force such a marriage on a finacially sound but unwilling bride.

Mr. Chairman, unlike other financial institutions' regulators, FCA regulates institutions which share a common funding source accessed through thirty-seven banks which are jointly and severally liable for their collective indebtedness on System-wide securities. Therefore, as the Chief Executive Officer for three such banks which share in that liability, I am very interested in the protection of an effective regulator. And for that reason I am especially pleased to have had this chance to comment on this very important legislation in behalf of the some 900 institutions which operate under FCA regulation.

Certainly, S.466 should be amended to assure that the Farm Credit System is not an experiment for untried enforcement powers. We believe, moreover, that in determining which enforcement powers should be granted, we should not focus merely upon the authorities of other regulators, but rather we should consider which powers are necessary and appropriate for FCA, given its unique function and the authorities that it already enjoys. In this connection, Mr. Chairman, we stand ready to work with the Committee and with FCA in identifying not only those additional powers which are needed, but also those powers and authorities presently enjoyed by FCA which may no longer be appropriate as it assumes powers and a new role more like those of other Federal financial institutions' regulators.

S. 744 FARM PRODUCTS LIEN

Let me turn briefly, Mr. Chairman, to the subject of Farm Products Liens. On several occasions in the last Congress, The Farm Credit Council testified in opposition to legislation, the effect of which was merely to preempt the laws of fifty states to delete the farm products exception of the Uniform Commercial Code. Mr. Chairman, that opposition was based on a policy resolution of The Farm Credit Council which nevertheless goes on to acknowledge the problems that exist under current law and the need for an alternative that would better serve the entire agricultural industry. We are not here today to argue that all the problems cited by the buyer groups are illusory.

At the same time, The Farm Credit Council has consistently maintained, as we do today, that any lasting solution to the so-called "double jeopardy" problem must result in a sharing among all segments of the industry—buyers, lenders and producers—of the responsibility for ensuring that security interests in farm product collateral are satisfied. We have also maintained that any legislative solution which reduces the degree of protection afforded lenders under current law will inevitably translate into restricted availability of operating credit for many small, beginning, and marginal farmers, and into higher interest rates for all agricultural borrowers commensurate with the increased risk that lenders would incur. I need not remind anyone, especially today, of the need to avoid either of these consequences.

Previous bills addressing the subject of farm products liens would have removed all protections that lenders enjoy under current law; The Farm Credit Council has been unyielding in its opposition to such an approach. We are pleased that S.744 rejects such an all-or-nothing approach, and to that extent the bill is clearly a step in the right direction. As introduced, however, S.744 suffers from a number of technical flaws and, more significantly, does not afford lenders an adequate means of protecting their collateral such that the unintended consequences just referred to—namely, restricted availability of farm credit and higher interest costs—would be avoided. Finally, by failing to involve the producer in any way, the bill does nothing to deter diversions of collateral proceeds. Accordingly, the Farm Credit Council must oppose S.744 in its present form.

As introduced, S.744 places all of the responsibility for protecting farm collateral on the lender; there is no sharing of responsibility between lender, buyer and producer but instead a complete and total transfer of responsibility to the lender alone. Moreover, the sole means by which S.744 permits lenders to protect their collateral would be largely ineffective for reasons I will discuss shortly.

The problem under current law is not that lenders have too much protection; the problem is that buyers lack an easy and practical means of determining whether a security interest exists in the farm products they purchase. The solution, therefore, lies not in reducing the protections which farm lenders currently enjoy, but rather in devising a means by which buyers can more readily and efficiently determine whether the commodities they purchase are encumbered. Having made that determination, a buyer can then protect himself by the simple expedient of a joint check; that is to say, the buyer's check can be issued jointly to the producer-seller and the secured partys, thereby relieving the buyer from any liability by ensuring that the secured party receives the sale proceeds to which it is lawfully entitled.

The most serious deficiency in S.744, as introduced, is that it does not establish a workable mechanism by which prospective buyers can obtain notice of outstanding liens; in fact, as presently drafted the bill would in many instances permit buyers to take free of an existing security interest "even Under the bill as introduced, a buyer of farm products would take free of a security interest created by the seller, "even though the buyer [knew] of its existence," unless the secured party or the seller had furnished the buyer written notice of the security interest within twelve months prior to the sale. The problem with this approach is that a lender has no way of determining with any degree of certainty to whom his borrower will sell unless the borrower has contracted in advance to sell his crops or livestock to a particular buyer.

The seemingly simple task of asking a producer at the time he borrows his operating money tc list prospective purchasers of the crops or livestock yet to be produced or raised necessarily assumes the producer knows at the time he takes out an operating loan to whom he will ultimately sell. Moreover, it assumes that a producer who is intent upon diverting collateral proceeds and thereby defrauding his lender will feel honor-bound to sell only to the buyers he has previously listed with his lender.

Unfortunately, the procedure for notifying buyers of existing liens envisioned by S.744 can actually facilitate diversions of collateral procceds by that small percentage of producers whose fraudulent conduct is the underlying cause of the problem this bill seeks to remedy. Having listed prospective purchasers with his lender, a producer intent upon diverting collateral proceeds can avoid a joint-payee check by simply selling his crops or livestock to someone else.

Faced with this prospect, responsible lenders would have no alternative but to inundate their respective trade areas with computer-generated lists of borrowers on whose crops or livestock they hold a lien. Because the information on such lists would quickly become dated, many lenders would not be content with merely updating their lists at twelve-month intervals. We submit that few buyers who give serious thought to the resulting administrative burdens that would fall to them under this approach will conclude that S.744, in its present form, is the solution to their problems.

At the same time, The Farm Credit Council recognizes that the notice procedure envisioned by S.744 may indeed be one part of the ultimate solution. Stated another way, the notice procedure enbodied in S.744, coupled with an alternative notice procedure which is buyer-driven and takes place at the point of sale, might well present a workable compromise solution to the problem of "double jeopardy."

While not wanting to take up any more of the Subcommittee's time on this particular issue, I would have you note an alternative proposal developed by a joint farm products lien task force of The Farm Credit Council and the National Council of Farmer Cooperatives (NCFC), with which the Council is affiliated. We believe it offers a reasonable and constructive solution—one that recognizes the problem of notice for buyers, but also involves a sharing and not just a shifting of responsibility among all the interested parties to see that the loan obligation is met.

Also attached to my written testimony is a copy of a bill introduced in the 1984 session of the Missouri legislature which envisions just the kind of "hybrid" approach to which I refer. The Missouri bill would combine the actual notice concept in S.744 with a "lien disclosure certificate" concept already adopted in several states. Under such an approach, a buyer of farm products would be required to obtain a signed statement from his seller disclosing the existence of any liens unless the buyer had previously received notice of a security interest from a secured party; compliance with the bill's requirements would relieve the buyer from any liability to the secured party. As introduced, S.744 at least hints at this concept by indicating that a buyer would take subject to any security interest of which the secured party "or the seller" had given written notice. The flaw in this approach is that it places the onus of giving notice at the point of sale entirely on the producer-seller, who under S.744 has no incentive for giving such notice; under the Missouri bill the buyer would be required to solicit such notice from the seller at the point of sale.

RURAL UTILITY ELIGIBILITY FOR BANK FOR COOPERATIVE FINANCING

There is one final issue of concern to Farm Credit that I would like to only raise briefly here today. This involves the current eligibility requirements by which the System's Banks for Cooperatives (BCs) finance rural utilities.

Initially the BCs were only able to finance rural electric and telephone cooperatives, 80 percent of whose voting control was in the hands of farmers and ranchers. In 1975, the threshold was reduced to 70 percent voting control. With the Farm Credit Act Amendments of 1980, it was further reduced to 60 percent voting control. But even that limitation on eligibility has proved to be unworkable from any practical standpoint, given the ever changing demographics in rural America. Urban sprawl, the diminishing number of farms and the increasing number of non-farm residents in rural areas will continue to decrease the number of rural utility cooperatives eligible to borrow under existing Farm Credit requirements.

The problem is that, according to the "area coverage" principle, rural electric cooperatives are required by law to serve an entire geographic area and all residents within that area—whether they be farmers, or non-farmers. Yet, clearly, a significant need exists for rural utility cooperatives to have access to alternative sources of financing that can be delivered at a reasonable cost.

Repeatly, Congress has demonstrated its intent that the Farm Credit System should be able to serve rural utility cooperatives. The System, however, has been frustrated in its efforts to meet this mandate while upholding the letter of the law regarding farmer voting control. It is estimated that a large number of rural electric, telephone, utility and service cooperatives will be unable to receive financing from BCs unless the eligibility requirements are amended. The Farm Credit Council is strongly committed to pursuing this legislative change so that the BCs can be more fully responsive to the needs of the industry.

Thank you, Mr. Chairman, for this opportunity to present these views for The Farm Credit Council. I would be pleased to answer any questions from the Committee.

An Act To repeal section 400.9-307, RSMo 1978, relating to secured transactions, and to enact in lieu thereof two new sections relating to the same subject, with penalty provisions and an effective date

Be it enacted by the General Assembly of the State of Missouri, as follows:

Section 1. Section 400.9-307, RSMo 1978, is repealed and two new sections enacted in lieu thereof, to be known as sections 400.9-307 and 400.9-319, to read as follows:

400.9-307. (1) Except as provided in subsections (3) and (4) of this section, a buyer in ordinary course of business (subsection (9) of section 400.1-201) [other than a person buying farm products from a person engaged in farming operations] takes free of a security interest created by his seller even though the security interest is perfected and even though the buyer knows of its existence.

(2) In the case of consumer goods and in the case of farm equipment having an original purchase price not in excess of five hundred dollars (other than fixtures, see section 400.9-313), a buyer takes free of a security interest even though perfected if he buys without knowledge of the security interest, for value and for his own personal, family or household purposes or his own farming operations unless prior to the purchase the secured party has filed a financing statement covering such goods.

(3) Except as provided in subsection (4) of this section, a person buying farm products in the ordinary course of business from a person engaged in farming operations takes free of a security interest created by his seller even though the security interest is perfected unless, within one year prior to the payment of the proceeds to the seller,the secured party has given written notice of its security interest to the buyer, sent by certified mail, return receipt requested. Such notice shall contain the name and address of the seller, a statement which generally identifies the farm products subject to the security interest, and an address and telephone number of the secured party from which information concerning the security interest may be obtained. The buyer shall include the name of any secured party who has furnished written notice of its security interest as provided in this subsection as joint payee on the check or other instrument issued in payment for such farm products, unless the buyer has received a written waiver from the secured party. A buyer who fails to comply with the provisions of this subsection takes subject to a perfected security interest created by his seller.

(4) Unless he has received written notice of a security interest as provided for in subsection (3) of this section, a person buying farm products in the ordinary course of business from a person engaged in farming operations shall, prior to payment of the proceeds to the seller, obtain from the seller a certificate, on a form prescribed by the department of agriculture, disclosing the names of any parties having a security interest in such farm products. If no security interest exists, the certificate shall so state. The buyer shall include the name of any secured party disclosed by the seller on such certificate as joint payee on the check or other instrument issued in payment for such farm products, unless the buyer has received a written waiver from the secured party. A buyer who fails to comply with the provisions of this subsection takes subject to a perfected security interest created by his seller. For purposes of this subsection a buyer may rely on a certificate previously obtained from the seller for a period of three years from the date the certificate was obtained or until such time as the buyer receives actual notice of a change in the information disclosed on the certificate, whichever first occurs.

(5) Except as provided in subsection (6) of this section, a commission merchant or selling agent who sells farm products for another for a fee or commission shall not be liable to the holder of a security interest in such farm products even though the security interest is perfected unless, within one year prior to the payment of the proceeds to the seller, the secured party has given written notice of its security interest to the commission merchant or selling agent, sent by certified mail, return receipt requested. Such notice shall contain the name and address of the seller, a statement which generally identifies the farm products subject to the security interest, and an address and telephone number of the secured party from which information concerning the security interest may be obtained. The commission merchant or selling agent shall include the name of any secured party who has furnished written notice of its security interest as provided in this subsection as joint payee on the check or other instrument issued in payment for such farm products, unless the commission merchant or selling agent has received a written waiver from the secured party. A commission merchant or selling agent who fails to comply with the provisions of this subsection shall be liable to the holder of a perfected security interest created by the seller to the extent the secured party does not receive the proceeds from the sale or other disposition of such farm products.

(6) Unless he has received written notice of a security interest as provided for in subsection (5) of this section, a commission merchant or selling agent who sells farm products for another for a fee or commission shall, prior to payment of the proceeds to the seller, obtain from the seller a certificate, on a form prescribed by the department of agriculture, disclosing the names of any parties having a security interest in such farm products. If no security interest exists, the certificate shall so state. The commission merchant or selling agent shall include the name of any secured party disclosed by the seller on such certificate as joint payee on the check or other instrument issued in payment for such farm products, unless the commission merchant or selling agent has received a written waiver from the secured party. A commission merchant or selling agent who fails to comply with the provisions of this subsection shall be liable to the holder of a perfected security interest created by the seller to the extent the secured party does not receive the proceeds from the sale or other disposition of such farm products. For purposes of this subsection, a commission merchant or selling agent may rely on a certificate previously obtained from the seller for a period of three years from the date the certificate was obtained or until such time as the commission merchant or selling agent receives actual notice of a change in the information disclosed on the certificate, whichever first occurs.

(7) No buyer of farm products and no commission merchant or selling agent who sells farm products for another for a fee or commission shall post publicly or otherwise disseminate to any person other than its agents and employees the information contained in any written notice furnished by a secured party pursuant to subsection (3) or (5) of this section.

(8) This section shall apply to any security interest created initially or renewed on or after the effective date of this act.

400.9-319. (1) It is unlawful for a debtor who, under the terms of a security agreement, (a) has no right to sell or otherwise dispose of farm products collateral, or (b) has the right to sell or otherwise dispose of farm products collateral provided the secured party receives the proceeds from such sale or other disposition, to sell or otherwise dispose of the collateral, or any part thereof, and to willfully and wrongfully fail to pay to the secured party the amount of the proceeds from such sale or other disposition. Failure to pay such proceeds to the secured party within ten days after the sale or other disposition of the collateral is prima facie evidence of a willful and wrongful failure to pay under this subsection.

(2) In connection with the sale or other disposition of farm products, it is unlawful to knowingly make a false statement as to the existence or identity of any party or parties having a security interest in such farm products on a certificate furnished to a buyer of such farm products under subsection (4) of section 400.9-307 or to a commission merchant or selling agent selling such farm products under subsection (6) of section 400.9-307. It is an affirmative defense to a prosecution for the violation of this subsection that the secured party received the proceeds from the sale or other disposition of the collateral within ten days after such sale or other disposition.

(3) A person convicted of a violation of subsection (1) or (2) of this section is guilty of:

(a) A class A misdemeanor if the amount of the collateral proceeds is ten thousand dollars or less;

(b) A class D felony if the amount of the collateral proceeds exceeds ten thousand dollars.

(4) This section shall apply to any security interest created initially or renewed on or after the effective date of this act.

Section A. This act shall become effective on November 1, 1984.

FCC/NCFC: FARM PRODUCTS LIEN ALTERNATIVE PROPOSAL

Below are elements of one possible alternative proposal designed to amend the UCC regarding the treatment of security interest in agricultural commodity sales:

Actual notice requirement

Buyers will take subject only to liens of which they have received actual written notice (from either the lender or the producer) within 18 months prior to the sale.

Producer's certificate

Within the past 18 months, producer must have provided to the buyer a certificate of ownership for liens outstanding against the commodity. The certificate would include a warning of criminal penalties for false statements and diversion of proceeds.

Joint check requirement

Having received such notice within the previous 18 months, the buyer is required by law to include the lienholder(s) so identified as a payee on the check. By so doing, the buyer is relieved of all further liability.

Termination of notice

Lenders must withdraw actual notice simultaneous with the filing of a termination statement.

Criminal provisions

1. Failure to apply proceeds from sale of products against lien would be criminal offense.
2. Failure to remit within 10 days would be prima facie evidence of fraudulent intent.
3. False statement on certification would be criminal offense; however, remittance within 10 days would be defense against charge of fraudulent intent.
4. Criminal charges on transaction values of less than $10,000 would be a misdemeanor. Criminal charges on transaction values of more than $10,000 would be a felony. (Optional by state)

Statute of limitations

Set for two years from date of sale.

STATEMENT OF CORKY JONES, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chairman, My name is Corky Jones, and I am the National President of the American Agriculture Movement, Inc.

The American Agriculture Movement had its beginning in 1977 when farmers realized that implementation of the 1977 Agricultural Act would spell the doom of hundred of thousands of family farm producers.

As you will remember, we brought our concerns to your doorsteps, asking that you reconsider and correct a terrible legislative mistake. Our words and our warning fell on deaf ears. We prophesied that if changes were not made, which would establish a floor under our prices at least equal to our production costs, that farmers, agribusiness, rural merchants, and rural bankers would fall on a massive scale within four years. The record will prove our warnings, and history has proven we were right!

The reactions of the administration and of Congress at that time was "go home and give our program a chance to work, times will be better for those of you who can survive!"

We were sent home, with the only action taken being that credit was relaxed and we were able to borrow more and more to make up for the losses due to low commodity prices. To offer a person credit while destroying his ability to repay that credit is a crime beyond comprehension. To throw water in the face of a drowning man would have been no more callous!

The Bible teaches that "As a man soweth, so shall he reap". Well, we are here today seeking answers to a problem which resulted from sowing seeds of debt instead of seeds of price. And the only immediate solution to this problem is to sow additional credit if we are to extend the day of reckoning for a few more months.

The American Agriculture Movement reluctantly recommends that you take immediate action which will made funds available to our nation's farmers for planting and harvesting their crops for one more year with the total commitment of Congress to pass a workable farm bill which will shore up prices at a level which will allow our nation's farmers once again to realize a profit for producing the nation's food supply. If you are not committed to passing a new farm bill which will restore a profit to agriculture, then you would be doing the farmers a favor by telling them now that there is no hope and no need for the family farms of America.

We realize that the President has been misinformed by his advisors—and that his recent veto of credit legislation makes it more difficult for you to act. However, "two wrongs do not make a right." As our representatives, you must with all haste, find a solution to which the President will agree.

The latest delinquency figures released by the FmHA on farmer's operating loans show that 71% of its borrowers have failed to make their payments. That is a far-cry from the 4% which President Reagan was told by his advisors were in trouble!

DCA'a and Federal Land Banks around the nation are panicking because of farmers inability to meet their credit obligations. Over 14 have failed in the past year and the others are forcing farmers into bankruptcy and involuntary foreclosure in order to make their books look better to the examiners.

Country banks are being dragged down by the tremendous agriculture debt, failing at a greater rate than at any time since the great depression.

Gentlemen, the handwriting is on the wall. If you refuse to recognize your responsibility to over rule the misguided actions of the President, the recent closure of the S and L's in Ohio will look like a picnic compared to the financial crash which will take place across rural America.

Perhaps you can solve this grave problem, but you can only solve it by first, passing legislation which will allow farmers to go deeper in debt, and secondly, pass immediate legislation which will give them a way to repay that debt.

There is not much comfort in being able to say "We toid you so" when our own farms and businesses are going down the drain--but it must be said.

Please don't make it possible for us to stand before Congress two years from now and once again say "We told you so" as we stand in the rubble of our nation's economic system which will surely be dragged down if agriculture is not restored to its proper place.

AAM recommends—Reschedule farm debt on a case-by-case basis to allow the operation to meet cash-flow requirements necessary to continue operation. Terms of the loan (20 Year maximum) shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people! Three of which must be farm operators, elected by their peers which will in turn appoint two others, one from the financial community, and one holding a public office. New applications must be accepted for consideration and any economic emercency (EE), emergency disaster (EM), or operating (OL) loans not acted upon within 60 days must be automatically approved.

[The following material was submitted by Corky Jones, president, American Agriculture Movement:]

ABA AGRICULTURAL BANKERS SURVEY SHOWS SCOPE OF CREDIT SITUATION

WASHINGTON, DC, February 28.—Agricultural bankers surveyed by the American Bankers Association (ABA) indicate that 14 percent of their farm borrowers will not receive continued operating credit for the 1985 production season as a result of deteriorated financial conditions.

Approximately 800 ABA member bankers representing a cross section of agricultural banks, with 20 percent or more of their lending devoted to agriculture, responded to the ABA survey sent out in January. Responses were returned quickly, particularly from the 580 banks responding from the midwest farm states where many banks concentrate their lending to farmers and where financial conditions for those farmers have shown the greatest deterioration.

Half of the responding bankers, fifty percent, say that overall financial conditions or net worth of their farm borrowers show "some deterioration" over the previous year, while another 37 percent of the respondents indicate that there is "substantial deterioration."

More than one third, approximately 41 percent, of farm borrowers had a negative net farm income during 1984, the bankers indicate. They anticipate that approximately 37 percent of the farm borrowers will have a negative net farm income in 1985.

Bankers identify that 24 percent of their farm borrowers have weak credit and are receiving special attention, while another 10 percent are considered very weak and show a potential for loss.

Most bankers, 82 percent, indicate that they were examined during the last 12 months and nearly that same number, 78 percent, state that examiners were knowledgeable of agricultural credits and had an understanding of the problems within the agricultural community. However, given the financial stress of the agricultural community, half the repondents, 52 percent, say that there is significant increase in classified agricultural loans in their portfolios.

ABA Agricultural Bankers Executive Committee members have worked closely with banking examiners during the last two years to raise awareness of the agricultural situation and identify that bankers are working closely with their farm customers to restructure loan portfolios where necessary.

Related to the Administration's Farm Debt Restructuring and Assistance Program, only 53 percent of the bankers indicate a willingness to use the program as it was originally proposed with a minimum 10 percent write-off of the loan principal, while 82 percent of the bankers indicate their willingness to use the program if it contains an interest rate write-down. Bankers indicate that they would assist 8.4 percent of their eligible borrowers with a program that offered a principal write-off, but double that number, 16 percent, if the program contains an interest rate write-down provision.

A message from 55 percent of respondents is that it takes between 90 to more than 120 days from the time an FmHA loan application is made and the time it is approved. In testimony before House and Senate Agricultural Committees, the ABA has asked that more resources must be available and effective loan processes be in place at county offices if any government-approved loan package is to work.

The ABA bankers have consistently stated that the quickest and most effective response to the current agricultural credit situation is through debt restructuring which addresses a farmer's existing debt position as well as future operating credit needs, while having a minimal impact on the federal deficit.

ABA agricultural bankers also indicate than an interest rate write-down with a loan guarantee of 90 percent on the full principal is a preferred proposal versus the Administration's proposal which provides a maximum guarantee on not more than 80 percent of the original loan.

The American Bankers Association is the national trade and professional association for America's Full Service Banks. Of its nearly 13,000 member banks, representing approximately 95 percent of the combined assets of the industry total, approximately 5,200 banks are considered agricultural banks, having 20 percent or more of their loans devoted to agriculture. Nearly 7,000 ABA member banks provide some lending to agriculture.

SPECIAL INFORMAL SURVEY, AGRICULTURAL CREDIT CONDITIONS AND BANK EXAMINATIONS, AMERICAN BANKERS ASSOCIATION

Early in January of this year, the Agricultural Bankers Division of the ABA mailed a survey to 2775 agricultural banks randomly selected from across the country. The objective of the survey was to obtain an assessment of financial conditions in agriculture, as well as to develop information pertaining to the relationship of banks with their examiners and the Farmers Home Administration. Most of the respondents replied in January so they had no prior knowledge of recent administration or congressional initiatives affecting agriculture.

The total number of responses received was 794. The vast majority of responses (582) came from the midwestern region, followed by the southern region (124), the western region (65) and the northeastern region (23).

The results of the survey are presented below. The results for each question are presented with the unweighted average shown as a percentage of total respondents to a particular item.

I. FINANCIAL CONDITIONS

A. Please indicate the change in the overall financial conditions (net worth) of your farm borrowers as you review their year-end 1984 statements compared to a year ago. Check one:

0—Substantial Improvement.
5 percent—Some Improvement.
8 percent—Essentially No Change.
50 percent—Some Deterioration.
37 percent—Substantial Deterioration.

B. If you checked either some or substantial deterioration, please indicate the proportion of your farm borrowers that would fall into these categories. Check one:

7 percent—Under 10 percent.
30 percent—10-25 percent.
37 percent—26-50 percent.
26 percent—Over 50 percent.

C. What percent of your farm borrowers had a negative net farm income during 1984? 41 percent. What percent of your farm borrowers do you anticipate will have a negative net farm income in 1985? 37 percent.

D. What percent of your farm borrowers fall within the following categories?

63 percent—Being given normal supervision.
24 percent—Identified as a weak credit and receiving special attention.
10 percent—Identified as a very weak credit with potential for loss.

3 percent—Foreclosure and/or bankruptcy in progress or imminent.

E. For what percentage of your farm borrowers will your bank be unable to continue providing operating credit for the 1985 production season? 14 percent.

F. Will you extend credit in 1985 for farm borrowers to pay maturing installments on land and machinery financed outside your bank?

77 percent—Yes.

23 percent—No.

G. If you checked yes, please indicate the percentage of farm borrowers for whom you will extend this type of credit.

27 percent over 75 percent.

27 percent—50-74 percent.

18 percent—26-49 percent.

28 percent—less than 25 percent.

H. Used farm equipment values changed by what percent in your area in 1984? —percent

75 percent of the respondents indicated that used farm equipment declined by an average of 22 percent in 1984

What will the estimated change be in 1985? —percent

72 percent of the respondents indicated that they expected used farm equipment to decrease by an average of 15 percent during 1985.

I. Farm real estate values changed by what percent in your area in 1984? —percent

76 percent of those responding indicated that farm real estate values had decreased an average of 19 percent in 1984.

What will the estimated change be in 1985? —percent

69 percent of those responding indicated that they expected farm real estate to decrease by 11 percent in 1985.

II. EXAMINATION OF BANK AGRICULTURAL PORTFOLIO

A. Have you had a team of examiners look at your loan portfolio in the past twelve (12) months? 82 percent Yes 18 percent No

B. If yes, by whom?

29 percent COC.

34 percent FDIC.

10 percent Federal Reserve.

50 percent State.

(Will not total 100 percent because some banks were examined by more than one regulator.)

C. Were the examiners knowledgeable of agricultural credits and understanding of problems within the agricultural industry?

78 percent Yes. 22 percent No.

D. Did the examiners look at agricultural loans differently than:

(a) In past examinations? 57 percent Yes. 43 percent No.

(b) Other loans in your portfolio? 37 percent Yes. 63 percent No.

(c) Other regulatory agencies? 18 percent Yes. 82 percent No.

E. Was there a major disparity between your bank's agricultural problem loan list (or watch list) and the findings of the examiners? 12 percent Yes. 88 percent No.

F. Was there a significant increase in classified agricultural loans in your portfolio? 52 percent Yes. 48 percent No.

G. Have you experienced the classification of an ag borrower's whole credit line when only a portion warrants such classification?

51 percent Yes. 49 percent No.

III. FMHA ASSISTANCE

In September, the USDA announced a "Debt Restructuring and Assistance Program." One of the provisions of this program allows for a FmHA guarantee of existing adversely classified loans following the forgiveness of loan principal in an amount that results in a positive cash flow for the farmer. The principal forgiveness cannot be less than 10 percent.

A. What percentage of your eligible farm borrowers would you consider assisting under this program? —percent

52 percent responded that they would consider using the program as announced in September. The average percentage of eligible borrowers for which they would consider utilizing the program was 8.4 percent.

B. If an interest rate write down were offered as an alternative to principal forgiveness for receiving a FmHA guarantee, what percentage of your eligible farm borrowers would you consider assisting under this program? —percent

82 percent responded that they would consider using the program if some sort of interest rate adjustment alternative were offered. The average percentage of eligible borrowers for which they would consider utilizing this program was 16.0 percent.

C. What is the response time between application and approval for FmHA loans in your area?

4 percent within 30 days. 27 percent 31-60 days. 12 percent 61-90 days. 26 percent 90-120 days. 31 percent 121+ days.

D. Would your bank be willing to serve a selected group of FmHA customers for a reasonable fee?

59 percent Yes. 41 percent No.

E. Are you an "approved lender" under the FmHA Approved Lenders Program?

30 percent Yes 70 percent No.

F. If you answered yes, please indicate the average number of days it takes to receive notice of approval on guarantee requests?

65 days.

STATEMENT OF EUGENE SEVERENS, CENTER FOR RURAL AFFAIRS, WALTHILL, NE

INTRODUCTION

This statement is presented by the Center for Rural Affairs, an independent, nonprofit organization located in Walthill, Nebraska. We have devoted considerable attention to farm credit problems and have been analyzing the policies and practices of Farmers Home Administration (FmHA) for over seven years.

The Center conducts a credit counselling service for farmers in our local area and has prepared the "FmHA Farm Loan Handbook," a comprehensive guidebook for FmHA borrowers and their representatives. We also publish "FmHA Information Alerts", one-page policy analyses available without charge to those responsible for and interested in FmHA policy implementation and directions.

More recently we have prepared a comprehensive set of "FmHA Farm Program Reforms" which collects in one place the lessons we have drawn from our seven years of representing FmHA borrowers and analyzing the impacts of FmHA policies and practices. A 2-page summary of that proposal is attached to the end of this testimony, and we would be happy to make the full proposal available to anyone interested.

For your immediate information those proposed reforms would effect, in brief, the following changes:

Reinforce current programs designed for efficient family-size farms;

Reduce current programs open to operations which are larger than family-size farms;

Save the government approximately $30 million by reducing the scope of subsidized emergency lending;

Create explicit authority for the preferential lease and sale of FmHA farmland inventory to farmers who qualify for FO or OL loan assistance;

Reform selected procedures which hinder the fair implementation of FmHA programs.

FMHA'S BASIC PROGRAMS: "NOW MORE THAN EVER"

There are two stages to the current farm crisis. The first is the current stage of farm liquidations, the second is the rebuilding of farms and the restructuring of farm assets that will inevitably take place after the first stage runs its course. Most of the policies and programs being discussed currently address the first stage. They are emergency measures designed to alleviate some of the hardships and control some of the causes. However, it is the policies and programs which we develop for the second stage of rebuilding that may, in fact, be more important. These second stage programs will determine which farms will be able to participate in the rebuilding of American agriculture, and FmHA's basic programs will be needed during that second stage more than ever in its history. The policies for that second stage need to be fashioned now.

Fortunately, the current desperate condition of agriculture has prompted new and creative responses, but we should not mistake emergency measures as substitutes for FmHA's proven and long-standing basic programs. For example, while I think there is a place for the guaranteed loan approach in FmHA's program, it is a stand-in program and provides no basis for dismantling FmHA's direct, insured lending. Guaranteed loans, by definition, serve a select better-off group of FmHA's clientele and at greater expense. We estimate that for the same level of appropriation, guaranteed funds will reach only one-third to one-fourth as many farmers. In addition, access to guaranteed loans is largely controlled by lenders, who, facing their own financial difficulties, will be tempted to channel FmHA guarantees to serve their private interests rather than those of all qualifying farmers.

We need to return FmHA to the basics: we cannot afford the notion that FmHA can be the lender of last resort for every farm of America. In facing both unprecedented budget deficits and the critical farm rebuilding stage we need a lean agency equipped with defensible public purposes and affordable programs. In short, we need an agency that can distribute its finite lending assistance to as many efficient family farms as possible. Our reform proposal would help achieve that end by maintaining a strong direct lending program—including the limited resource program—and by adopting modest individual loan ceilings in all programs to make sure that FmHA's limited assistance serves as many efficient farms as possible.

FARMLAND INVENTORY

I would like to draw special attention to our proposal to develop FmHA's authority for the leasing and sale of farmland in FmHA's land inventory. As you know, FmHA's farmland inventory is growing. The disposition of this farmland should be consistent with FmHA's basic purposes. In short, the inventory farmland should be leased or sold to family farms through the FO or OL programs as appropriate. Where the tenant or owner-operator applicant qualifies for the limited resource program, the land should be leased or sold at the appropriate reduced interest rate.

Land prices are down. We have almost reached the point where you can pay for land by farming it. This reform would put FmHA programs in a position to help efficient family farms rebuild or get started at just the right time.

Thank you for this opportunity to provide testimony.

FmHA Family Farm Reform Proposal, Summary, January 1985

PURPOSE

To restore FmHA's basic mission of maintaining opportunities in agriculture by providing modest assistance to efficient family-size farms. The reforms refine and bolster current programs and procedures which support that goal, and they reduce or eliminate programs and procedures which are open to farms that are larger than family-size. While these proposals are long-term reforms, many (indicated by *) will have an immediate impact on the current credit crisis.

I. LIMITED RESOURCE (LR) LOAN PROGRAM REFORMS

This section strengthens the LR program by:

Restoring the original minimum quota to require that at least 25% of FO and OL funds go to LR borrowers;

Making funds available for record keeping training for LR borrowers;

Lowering the LR interest rate in the OL program to one-half the cost of money rate (same as LR/FO);

Making the definition of, and procedure for determining, and LR borrower more explicit;

Clarifying the status of LR loans in the OL program.

In another proposal section (IV) additional funds at the LR rate are made available for the disposition of farmland from FmHA's land inventory.

II. FO AND OL PROGRAM REFORMS

This section strengthens the family farm purposes of FmHA's basic programs by:

Adopting a new definition of a family-size farm;

Protecting the role of insured FO/OL loans to family-size farms by limiting guaranteed FO and OL loans to 10% of all FO and OL funds;

Modifying the current individual OL loan ceiling by limiting to 25% the amount of insured OL funds which go to borrowers with OL indebtedness over $100,000;

Limiting a borrower's total FmHA debt (FO, OL, EM) to $500,000.

III. EM PROGRAM REFORMS

This section reduces the scope of the EM program and would realize substantial savings in interest subsidies by:

Limiting emergency loans to family-size farms;

Eliminating the EM lending to farms which can get credit elsewhere;

Reducing the EM loan ceiling from $500,000 to $200,000/disaster.

IV. FAMILY FARM DISPOSITION OF FARMLAND INVENTORY

This section makes explicit a family farm preference for the disposition of farmland from FmHA's growing land inventory by:

Limiting the lease or sale of FmHA farmland inventory to farmers who are eligible for FmHA FO or OL loans with first priority going to limited resource (LR) borrowers;

Authorizing a separate, temporary use of LR/FO funds to finance the purchase of farmland inventory by LR borrowers;

Providing for the subdivision of inventory farmland which is larger than appropriate for family-size farms;

Providing emergency procedures for valuing suitable farmland at a price which reflects the land's income yield.

V. FARM LOAN SERVICING REFORMS

These reforms clarify existing deferral law (7 U.S.C. 1981a), confirm selected judicial interpretations, and provide new remedies for handling delinquent borrowers and dealing with economic emergencies by:

Clarifying that "circumstances beyond the borrower's control" include broad economic factors like unexpected high interest rates and low commodity prices;

Providing minimum standards for the release of income security for family living and operating expenses.

Instituting a permanent "right to cure default" which prevents unnecessary accelerations and foreclosures;

Creating an emergency farmstead protection plan which during specified emergencies allows a borrower to temporarily exempt from acceleration and foreclosure limited, minimal farmstead assets.

VI. FARM LOAN PROCESSING REFORMS

These reforms will expedite the processing of farm loan applications and improve farm planning procedures by:

Requiring minimum time limits for the processing of critical loan approval and obligation forms;

Providing for a study of the appropriateness of the FmHA's critical "Farm and Home Plan" and proposed substitutes.

VII. COUNTY COMMITTEE REFORMS

This reform will improve the participation of the county committee in determining farmer eligibility by:

Requiring the election of two of the three county committee members;

Requiring that the third committee member be appointed by FmHA to adequately reflect any sizeable minority in the county.

VIII. FARM PROGRAM APPEAL REFORMS

Through these reforms, FmHA's administrative appeal system will better protect the integrity of FmHA's public puposes by treating farmers in like circustances consistently and providing a more effective system of checks and balances to measure FmHA loan officers' effectiveness in program implementation. These reforms will:

Emphasize the use of informal meetings to settle disputes quickly and reduce the need for formal appeals;

Provide for a formal hearing with an independent administrative law judge when the informal hearing fails to resolve the dispute.

Budget implications: Based on FY1984 lending records, the above proposals will save about $30 million in interest subsidies. We estimate that savings from limiting EM loans to family-size farms will be about $44 million which will be partially offset by a $14 million increase in subsidized LR interest in the OL program. There would also be sizeable, but indeterminable savings from the resulting decrease in the high loan losses experienced in the EM program.

The FmHA Family Farm Reform Proposal has been prepared by the Center for Rural Affairs after several years of monitoring FmHA and helping FmHA borrowers with their loan problems. The eight sections in the proposal were prepared by Center staff and other organizations and individuals. The proposal in its entirety is available by writing the Walthill, Nebraska office or contacting Jay Sherman at 2001 S St., NW; Suite 500; Washington, DC 20009; 202-483-1500.

STATEMENT OF DICK JOHNSTON, PRESIDENT, MISSOURI FARM BUREAU FEDERATION, AND MEMBER, AMERICAN FARM BUREAU FEDERATION BOARD OF DIRECTORS

My name is Dick Johnston and I am a farmer in Missouri. I also serve as President of the Missouri Farm Bureau Federation and as a member of the American Farm Bureau Federation Board of Directors. I am here today representing the American Farm Bureau Federation.

The American Farm Bureau Federation is the largest general farm organization in the United States representing over 3.3 million member families in about 2,800 counties in 48 states and Puerto Rico. It is a voluntary, nongovernmental organization representing farmers and ranchers who grow virtually every commercially produced agricultural commodity in this country and who operate more than 75 percent of the nation's commercial farms and ranches.

During 1984, our members across the country spent a great deal of time talking about the credit and debt situation we now face in agriculture and what should be done to alter that situation. Our Farm Bureau Farm Bill proposal has been introduced by Congressman Emerson (H.R. 1965) and Senator McConnell (S. 908). Our members feel strongly that credit and farm programs are entirely different issues and should be kept separate. Farm program changes are a long-run initiative and credit problems must be focused on in the short-run. For that reason, we have not included a credit section in our farm bill proposal. We would, however, like to comment on the credit section which the Administration has included in their bill.

The major provisions of the Administration's bill and our reaction to those provisions include:

(a) A discontinuation of the Farmers Home Administration (FmHA) disaster loan program in counties where crop insurance is available on the individual commodity affected.

Farm Bureau opposes this discontinuation of the disaster loan program, but we do feel the program should be changed. Loans should be made only to farmers who are unable to obtain financing elsewhere. Presently, qualified applicants who are unable to obtain credit elsewhere receive subsidized loans (as of today, the interest rate is 5 percent for the first $100,000 and 8 percent for the next $400,000) and those who are able to receive credit elsewhere but prefer to use FmHA receive the loans at the prevailing market rate (as of today, that interest rate is 13⅛ percent). Farm Bureau strongly believes FmHA should return to its original purpose—that of being the "lender of last resort"—and quit aiding farmers who are able to obtain disaster assistance elsewhere. We also believe the interest rate on FmHA disaster loans to those who cannot obtain credit elsewhere should not be subsidized by the government. Instead, the rate should be variable to reflect the market conditions over the term of the loan.

(b) A five year phase-out of FmHA direct operating loans and a transfer of existing direct operating loan borrowers to the guaranteed loan program.

Farm Bureau believes both the direct and guaranteed loan programs should be continued, especially for the farm ownership and farm operating loan programs. Adequate funding should be provided to meet the legitimate needs of eligible farm families. With the severe credit problem now facing agriculture, and the enormous number of borrowers being denied loans from their normal lenders and referred instead to the FmHA, we believe continuation of the direct loan program is essential.

(c) FmHA guaranteed loans offered on a guaranteed basis not to exceed 75 percent of the loan amount; only borrowers facing financial hardship eligible for guarantees of up to 90 percent.

Farm Bureau has some concern with this provision of the Administration bill, especially if direct loans are discontinued. We don't believe bankers will make credit available to producers at only a 75 percent guarantee.

Farm Bureau also has the following recommendations regarding the functioning of FmHA:

That all FmHA property which is foreclosed on and not disposed of within two years by private treaty should be sold at public auction in a systematic manner.

That any FmHA borrower who is unable to build up enough equity to get financing from other institutions after ten years should not continue to be financed by FmHA.

That a moratorium should not be placed on FmHA loan foreclosures.

Farm Bureau also believes reorganizing FmHA would be of great benefit to farmers. The FmHA was originally created for one purpose—to make loans to depression-stricken farm families. Today, although FmHA still aids family farmers, its resources are not concentrated on aiding family farmers because its programs have become highly diversified. Programs which require not only funds, but time and effort of FmHA personnel include: home ownership loans, rental housing loans, mutual self-help housing loans, congregate housing loans, water and waste disposal loans, energy impact assistance grants, community facility funding, business and industry program funding, watershed and flood prevention loans, and resource conservation and development loans.

These programs all draw on the time that FmHA personnel at the national, state and especially local levels have to spend on the agricultural credit programs—which FmHA was originally established to address.

Congressman Wes Watkins has introduced a bill to reorganize FmHA (H.R. 1842). The thrust of the proposal shifts the nonfarm programs of FmHA to a new division in the USDA. It also shifts soil and water conservation loan programs to the Soil Conservation Service. Farm loans would be handled by the present county and state employees. All rural development loans would be handled at the district level (former FmHA district offices).

Farm Bureau supports Congressman Watkins' efforts. We strongly believe farmers could be aided much more if FmHA did not have to spend so much time and money on all the nonfarm programs presently administered by FmHA.

We would also like to bring to the Committee's attention one other issue of importance to Farm Bureau members. For a number of years, the livestock, grain and cotton industries have been plagued by an unfair situation which causes farmers and other buyers of farm products to pay for a commodity twice—once to the seller for the product and again to the seller's bank if proceeds of the sale are not used to repay a secured loan. Farm Bureau is concerned about this problem because:

First, as the problem continues to grow, it is adversely affecting individual farmers as well as the markets to whom farmers sell their products. Farmers buy products such as feeder cattle and pigs, breeding stock, grain and hay from other producers and are required to make double payments.

Second, it poses an undue financial hardship on markets to which producers sell their commodities. We are interested in any problem which reduces the economic viability of agricultural markets.

Third, losses due to double payments for products are passed on to other producers in terms of higher marketing fees and processing costs.

Fourth, the current law requires buyers of agricultural products to become credit supervisors for loans about which they have no knowledge.

It is unreasonable for the livestock market or grain elevator to become a credit supervisor for a lending institution. In effect, the buyer of farm products becomes the involuntary guarantor of a loan about which he knew nothing, in which he had no input as to the advisability of the loan or the limit of the credit granted, and for which he receives no compensation in the form of interest to cover risk exposure and jeopardy he has involuntarily and unknowingly assumed.

Senator Cochran has intoduced legislation, S. 744, to correct this problem. This bill is a "compromised" approach which eliminates the farm products exemption from the Uniform Commercial Code but allows lenders to protect their security interests through "notice" to potential buyers that a lien exists. The notice option is similar to notice requirements operating successfully in several states.

We enthusiastically support S. 744 and encourage the Committee to act promptly on this bill.

Thank you for the opportunity to appear today.

STATEMENT OF WILLIAM A. DUNCAN, PRESIDENT, MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT

Mr. Chairman and Members of the Subcommittee: My name is William Duncan. I am the President of the Mountain Association for Community Economic Development, or MACED for short.

MACED is an economic development organization which has promoted business and housing develpment in Kentucky and Central Appalachia for nine years. Reliable access to safe drinking water is essential for the development of these rural communities, but is unavailable to a majority of the households. Therefore, the staff at MACED undertook a study to document the extent of the problem and possible approaches to solving it.

Our study covers drinking water conditions in a 21-county area of Southeastern Kentucky, in the pricipal coal mining area on this side of the state. We looked at conditions from the point of view of the people in the area, looking at groundwater conditions as they affect families using wells; surveying in detail the 78 principal community drinking water systems there to see how they can be strengthened as reliable drinking water suppliers; and looking for mechanisms to improve access to safe drinking water in the area.

The MACED study says several very important things about the state of drinking water supplies in isolated, limited income rural areas. We think that these conclusions are directly relevant to what the Committee should do about continuing and improving the water and wastewater grant and loan programs in the Farmers Home Administration.

First, the FmHA programs must be reauthorized, and at no less than the current funding levels. Southeastern Kentucky will make no further headway in solving the serious drinking water problems there unless these programs are continued.

Second, the FmHA programs have worked well in our area because of several crucial factors: extensive grant and below market interest rate loan support, a successful attempt to reach those communities that need help the most, and limited but active technical assistance programs conducted by groups outside Farmers Home, as well as by local FmHA staff. The law should be changed to insure that these factors are available in every state. We urge the Committee to approve the detailed legislative changes we are proposing along these lines.

I will describe what is going on in Southeastern Kentucky and its implications nationally.

Our area is very rural and the people have a limited ability to meet their basic needs.

This is a mountainous region, rich in coal and natural beauty, but sustaining a very poor population. Over 540,000 people live here—mostly scattered along the roads and creeks, with only 11 percent living in towns of 2,500 or larger. In 1980, 24 percent of the families lived below the poverty level, compared to 15 percent in all of Kentucky and 10 percent nationally. Unemployment is high. In October 1984 it was 12.0 percent (as high as 30 percent in one county) compared with 8.9 percent for the state and 7.0 percent for the nation.

The problems people here face in obtaining safe drinking water are severe. Twenty percent of the households are without indoor plumbing—a nearly unheard of level in most of the United States, where the average figure is 2 percent. Almost 60 percent of the families are without central water supplies and 80 percent are without community wastewater systems.

Increasing industrial activity, as well as recent population growth, have put serious pressures on the quality of the groundwater. Local county health officials estimate that over two thirds of the wells in eastern Kentucky are contaminated with fecal coliform. They attribute this to the fact that septic systems are infeasible in many areas and few community waste disposal systems exist.

Coal mine blasting can fracture rock layers, causing water tables to drop or allowing contamination to get into groundwater sources. Run-off from abandoned and improperly reclaimed surface mines produces acid water drainage, affecting surface water quality. Sixteen of the twenty-one counties in the study area are affected by this acid drainage.

Families are beginning to report visible well water contamination. Reports of "black" water and "red" water are common.

In its "1984 Report to Congress on Water Quality," the state Division of Water acknowledged problems in eastern Kentucky:

"Over the past few years, both the water quality and quantity has significantly changed throughout the Eastern Coalfield region. . . . The water table in this area has definitely dropped over the past ten years (some places averaging up to one foot per year) . . . . Many shallow area wells are contaminated with fecal coliform, high iron concentration, and "blackwater." . . . Both the surface and groundwater quality is considered extemely poor in the Evarts, Cranks Creek, and Black Mountain areas [Harlan County] where mining is heaviest."

The simple fact is that most people can no longer get decent water from their own wells.

We have made progress, over the last 20 years, in getting more and more families on public water systems that supply safe drinking water. In 1960, only 27 percent of the households were on community systems. Almost threee-fourths of the households supplied their own water, usually from wells, but also from cisterns or springs. From 1960 to 1980, a period which included a decade of rapid population growth, people moved from the use of surface water to wells and, where possible, to public systems. The number of households using springs, surface water, or cisterns declined sharply from 20 percent to 8 percent, while public systems by 1980 reached 77,000 households, 41 percent of the population. However, almost 60 percent of the families still relied on individual wells.

This progress has been made possible only because of the availability of outside financing for facilities contruction—financing provided by the federal grant programs and by the low interest rate loan assistance available from the Farmers Home Administration.

Our study shows that FmHA is participating in two-thirds of the 24 new water system construction projects begun in the 21-county area in the last two Fiscal Years and is supplying 42 percent of the funds involved. The state-administered Community Development Block Grant program is participating in just over half of the projects and providing about a fourth of the capital involved. Other federal programs are providing nearly all of the remaining capital.

Without these programs, particularly those of Farmers Home, there would be no new water system construction in Southeastern Kentucky.

There are people who feel that it is time to turn over this financing job to the private sector or the municipal bond market. Our study shows that rural Kentucky people simply cannot afford the cost of borrowing funds, even if it were availble for these projects.

First, even with Federal subsidy, costs are such that people already pay high bills compared to other areas. The average water bill on existing systems in the area is $15.68 per month. For new systems, it goes up to $24.23 per month. This compares to $12.75 in all of rural America. People here are paying about 1.46 percent of their annual incomes for water, compared to 1.19 percent in the rural U.S. overall.

We compared the effective cost of capital from the federal programs with what it would be if the capital came from the municipal bond market, the lowest cost alternative for these systems, although the bond market is essentially closed to these systems because of the small sizes and poor finances.

If the Farmers Home loan and grant portion of the capital required were replaced with municipal bond funds, the annual debt service would increase from the current $56 per household to $218 per household. Monthly bills would increase from $24 to $38. If all federal funds in the system were replaced by municipal bond funds, annual debt service would increase to $375 per household, and monthly bills would average $51.

These increases are significant by any measure. If municipal bond funds were the only source of financing for these small rural systems, further improvements, expansions, or startups would simply not happen in Southeastern Kentucky.

The Farmers Home water-sewer programs, and the other federal financing in this area, have worked in Southeastern Kentucky. Why they have worked here is important in judging what their role should be throughout the country.

First, the FmHA programs have worked because the Farmers Home staff has been willing to provide substantial amounts of grant funds, as well as below market rate loan assistance. The staff has worked to make communities eligible for these forms of support despite national FmHA policy intended to cut most rural communities off from any grant assistance and keep interest rates high.

Second, FmHA has actively tried to get the assistance into those communities that need help the most. They have brought the programs to areas where the wells now pump only "black" water and where the state has had to provide water tankers on an emergency basis. This kind of targeting is essential.

Third, there has been technical guidance available, not only from a committed FmHA staff, but from rural water technical assistance groups. In our area, the FmHA-funded Kentucky Rural Water Association has played a very important role, as have several nonprofit groups which offer contracted management services. In other parts of the country, a network of regional Rural Community Assistance Projects perform similar functions.

A detailed analysis of the FmHA programs across the country shows that these elements, so critical to the success of the programs in our area, are not always available. For instance, a preliminary look at data from 12 states indicates that, while the average income in communities funded by Farmers Home in Kentucky is 76.4% of the statewide average, it is much higher than that in most other states. And, while the Kentucky Farmers Home office uses the grant funds to the extent that they comprise 42.5% of their total funding, thus allowing them to reach poorer communities, most other states do not do nearly as well. (See the attached table.)

We support the legislative proposals being made by a coalition of rural groups around the country to insure that the elements which have made the FmHA water-sewer programs work in our area are available everywhere.

I would be happy to respond to any questions you may have or provide any further details about why we think that the reauthorization and reform of the Farmers Home programs are so essential to rural people.

STATEMENT OF N. ROLLIE LAKE, PRESIDENT, COMMUNICATING FOR AGRICULTURE, INC.

A SPECIAL FARM PROGRAM

Thank you, Mr. Chairman. My name is N. Rollie Lake. I am President of Communicating for Agriculture (CA), a farmer, and for twenty years was Senior Vice President and Director of the First National Bank of Fergus Falls, Minnesota in charge of agricultural credit. Prior to that I taught vocational agriculture in Fergus Falls, Minnesota.

CA is a nationwide, nonprofit organization. Its purpose is to serve rural America by helping rural youth and other rural citizens unite in efforts that will better the country. Our special focus is helping beginning farmers, protecting and encouraging family ownership of farmland, improving rural education, health care, and transportation, working to correct inequities in national and local tax laws, and encouraging soil and water stewardship.

Agricultural policy has a fundamental impact on nearly every one of our important interests, so that CA is intimately concerned with agricultural policies and programs.

CA is unique. We do not have state or regional associations, but survey our members continually on important issues. This system provides the basis for our resolutions, which are then approved by CA membership.

Finally, CA is nonpartisan. In an important sense, good agricultural policy like good foreign policy must be nonpartisan and our members hold that conviction very strongly. We support programs to better rural areas, an objective that surpasses narrower affiliations.

My purpose here today is to present a few, very limited suggestions for consideration in the 1985 farm bill. First, I would like to tell you briefly why we believe the programs we recommend are needed.

We believe there are fundamental problems in American agriculture. To an important degree, the times have changed and government policies have not kept pace. It is not that policies and programs have not been changing—they have. Today's export-oriented farm programs are far different than those begun 50 years ago. It is just that they have not changed enough. In too many cases, the programs we have are not the ones we need and perhaps not the ones we can afford.

Unless one is involved in farming every day, it is almost impossible to keep up with the changes. Let me cite a few. I hate to use averages because they mask important diversity. However, they do permit comparisons over time. They indicate that in 1982 the average farm was twice as large as in 1950, 439 acres now compared with 213 then. Not only is the modern farm larger, but it is very different:

Its output per acre is twice as great.

Its machinery is five times as costly.

Sixty percent more labor of its labor is hired.

It depends twice as heavily on manufactured inputs.

It depends more on nonfarm income.

Its assets are nearly four times greater, $451,000 compared with $95,000, and its equity is just over three times greater.

Its debt is greater, 21 percent of assets compared to nine percent in 1950, and 16 percent in 1980. (See Appendix Table 1.)

This is the profile of a business that requires both large capital investment and sophisticated management. Nearly four of ten acres produce for export, markets that are highly variable because of policies in Japan, the EEC, and other major importers, weather changes, decisions by competitors, and macroeconomic policies in the United States and worldwide. Fiscal and monetary policies, trade policies, and foreign exchange positions can change farm income as much or more than the traditional farm policies in some situations. Farmers individually are powerless to deal with this and they are not usually addressed in the farm bill.

At the same time commodity markets have become less stable, farmers are less flexible. They are highly specialized, fully dependent on the national economy, and use large amounts of borrowed capital. Many are less able to withstand severe market swings than in the past.

As a result, the current farm financial problems take on special significance. Farmland prices peaked in 1981 after three decades of uninterrupted increases. By last April, farmland prices were down eight percent nationwide and nearly 30 percent in parts of the Cornbelt and upper midwest. Land values continued to drop through the midwest in 1984, and probably will decline further in 1985. Land values are now back to levels of the mid-1970s in those areas. A number of farmers who purchased land or started farming in the mid-1970s now have debts that exceed the value of their assets.

Not all of the farmers who are in trouble today made bad decisions and attempted to expand too rapidly. The financial stress on the industry is so great that almost any problem can take an abnormal toll. The farmer with an unusual disease problem, a drought, a fire, or accident that required an increase in debt is suddenly in financial trouble. The cost of debt has become so high and the margin for error so small that only the well financed and the fortunate are free of financial concerns.

This month USDA estimated that 143,000 farms have debt-to-asset ratios greater than 70 percent. These farmers are almost certain to have serious cash shortfalls and long-term problems. This seven percent of all farms hold nearly 25 percent of the debt. Another 243,000 farms have debt/asset ratios ranging from 40 to 70 percent. These farms have serious cash flow problems, but may have a strong chance to recover with the right kind of assistance. They hold one-third of all debt.

Considering only farms with sales between $50,000 and $500,000, USDA estimated the financial condition in January 1985 as follows:

Number of farms	Debt/asset ratio (percent)	Share of debt (percent)	Comment
43,000	Over 100	9.3	Technically insolvent.
50,000	70 to 100	11.1	Extreme problems.
136,000	40 to 70	25.9	Serious problems.
450,000	Less than 40	17.9	No apparent problems.
679,000		64.2	

This is a profile of a farm sector with serious financial problems, but nevertheless one that cannot be insulated from changes in domestic and world markets. In fiscal year 1983, the Commodity Credit Corporation (CCC) spent nearly $19 billion in outlays on farm income and price support programs, not including the $9.4 billion worth of commodities paid under the Payment-in-Kind (PIK) program. While CA believes that farm programs are essential, their cost must be moderate and they must give top value for money spent. Payments of $1 million or more to 51 individual farm operations make programs less, not more effective. The farm community cannot expect the broad support it needs if the programs are used to enrich the wealthy.

Agriculture today faces serious problems. It must adjust production to real market needs, and do so without permanent financial damage to the nation's most productive farmers. While each of the nation's 2.4 million farmers is very different, farms can be categorized into roughly three groups:

Large commercial farmers (greater the $150,000 sales). In 1983, these 160,000 farmers provided 54 percent of commodity sales. They averaged $2 million in assets, $1.4 million in equity, and nearly $600,000 in debt. Their income in 1983 was $145,000, and about 90 percent came from farming.

Part-time farmers (less than $40,000 sales). These 1.7 million farmers produce only 13 percent of U.S. sales. They average $197,000 in assets, $171,000 in equity, and $26,000 in debt. Their income averages just over $19,400, all from off-farm sources. On the average, they have losses from farming which are offset by nonfarm income.

Commercial family farmers ($40,000 to $150,000 in sales). These 505,000 farms produced about one-third of sales in 1983. They average $753,000 in assets, $601,000 in equity, and $152,000 in debt. Their income in 1983 was $24,743, 54 percent from farming.

In many ways, it is the commercial family farmers that are the most troubled. They depend heavily on farming for income, but lack the financial assets of larger farmers and the off-farm income of those smaller. They are, in many cases, highly efficient family farmers with an immense stake in local communities. Nevertheless, many face the difficult choice of either increasing their investment or becoming a part-time, probably smaller operation.

The program CA proposes is based on the most significant needs of family farmers—to help stabilize income for efficient operators and give them additional access to capital.

The CA program would limit most of its benefits to those who sell less than $150,000 worth of commodities annually. And, while it would help those family farmers with off-farm income, it would limit their benefits on the basis of the importance of their farming operation.

The CA proposal has three parts:

Individual Farmer Accounts (IFAs)—tax credits for farmers who help stabilize their income by deferring income from good years to bad.

A Pilot Program of Crop Price Insurance—expanding all-risk crop insurance to reduce farmers' price risks.

A Special Modified Debt Recovery Program—a loan program to help farmers who are proven good risks, but lack resources.

THE CA SPECIAL FARM PROGRAM

Individual farmer accounts

Much like the Individual Retirement Account program, individual farmer accounts would defer income from good years to bad. It would be limited to operating farmers. Deposits would be tax free and generate a credit. Funds could be withdrawn in years when income is low. Taxes would be paid at correspondingly lower rates.

The program has the following main features:

Deposits would be voluntary and would earn interest. They would be designed to encourage farmers to save in normal years to protect against low income periods.

The program would be designed for family farmers, and only farmers with less than $17,000 nonfarm income would be eligible. Tax benefits would go only to those with less than $150,000 sales.

Tax deductions and credits depend on deposits made and farm sales. Farmers with $40,000 in sales, or less, would receive a tax deduction equal to the deposit. The special benefits of the program decline as farm sales increase.

Chart 1. Savings From $1,000 and $4,000 Deposits--$5,000 Nonfarm Income

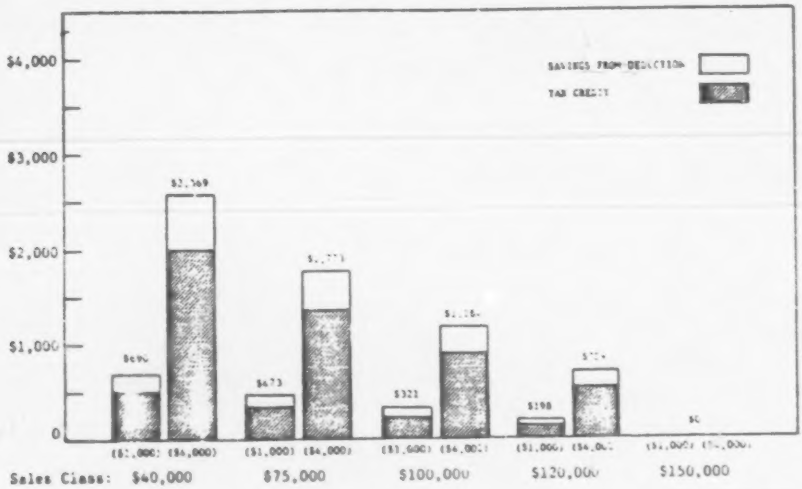
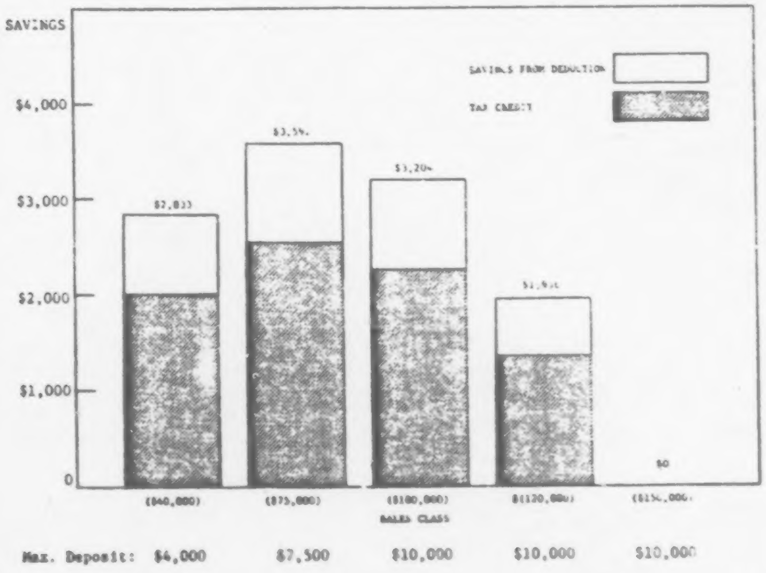


Chart 2. Savings From Maximum Deposit--$17,000 Nonfarm Income



Farmers with $40,000 in sales, or less, would receive a tax credit equal to one-half their deposit, up to a maximum credit of $2,000. The tax credit would decline as sales increase, and become zero at $150,000.

The maximum deposit in any year would be $10,000 or ten percent of sales, whichever is smaller. The maximum size of an account would be 25 percent of five year average gross sales.

Withdrawals from the IFA would be taxed in the year made. Withdrawals could be made without penalty only if:

Account holder is still farming, and

Farmer's gross sales in year of withdrawal declines 20 percent or more while area farmed is unchanged, or

Farmer has retired.

An IFA would be a nontransferable asset. If the account holder wished to transfer the value of the asset to his children or use it for other purposes, he would liquidate the account, in which case the withdrawal would be taxed. When the account holder dies, the account would be liquidated automatically.

Farmers with $40,000 sales or less, but with $17,000 or less in nonfarm income, receive the maximum benefit from each deposit. A $4,000 deposit by such a farmer reduces taxable income by $4,000 and provides a $2,000 tax credit. The total savings from the deduction and credit would be $2,833, 71 percent of the deposit, an incentive to participate in the program. As farm sales increase, the program benefits decline. Farmers with $100,000 sales, for example, have savings between 38 and 32 percent of their deposit depending on their total income level. For farmers with $150,000 or more sales, no deduction or tax credit savings are received.

Crop price insurance

CA proposes that the federal all-risk crop insurance program be expanded to offer coverage both against low yields and low prices, and that a limited, pilot program be offered initially for soybeans.

The program would have the following general features:

It would operate in conjunction with the current crop insurance program and be administered by the FCIC.

The yield insurance component would be operated exactly as it is now. Farmers would select among three yield options, with the guarantee level based upon historical county or individual yield data.

The price guarantee would be fixed annually on the basis of national average cost of production, excluding land, and announced prior to the sign up period. The selected price target would be used to compute both yield indemnity payments and price losses. Price losses would be computed as the difference between the selected price target and the national average price for the covered commodity, and limited by a specific maximum loss.

Premiums for yield insurance would be estimated and subsidized as they are now. The price insurance premium would be based upon the price guaranteed and past price variability. Since premiums for price insurance cannot be estimated actuarially, they would be established on the basis of affordability and reasonable cost to the government.

Premium subsidies for price insurance would be offered only for farms with less than $150,000 in sales.

Table 1 indicates one way in which a crop price insurance program might operate for soybeans. In this example, the target is 30 bushels per acre, and the price target $6.75 per bushel. Yield coverage is for 22.5 bushels per acre (75 percent of the 30 bushel target), with a value of $6.08 per bushel (90 percent of the $6.75 per bushel target).

In this example, a farmer whose soybean crop is completely ruined would collect $136.69 per acre from yield insurance, and those with yields of 15 bushels and 30 bushels per acre, $45.56 per acre insurance and no insurance payment, respectively. The insurance payment would be based on contract coverage and actual yield, and would not change as market price changed.

TABLE 1.—CROP AND PRICE INSURANCE

	Market price					
	5.25	5.75	6.25	6.75	7.00	7.50
	Revenue					
YIELD 0.00						
Ins pmt	136.69	136.69	136.69	136.69	136.69	136.69
Price pmt	0.00	0.00	0.00	0.00	0.00	0.00
Sub	136.69	136.69	136.69	136.69	136.69	136.69
Sales	0.00	0.00	0.00	0.00	0.00	0.00
Total	136.69	136.69	136.69	136.69	136.69	136.69
YIELD 15.00						
Ins pmt	45.56	45.56	45.56	45.56	45.56	45.56
Price pmt	22.50	15.00	7.50	0.00	0.00	0.00

TABLE 1.—CROP AND PRICE INSURANCE—Continued

	Market price					
	5.25	5.75	6.25	6.75	7.00	7.50
Sub	68.06	60.56	53.06	45.56	45.56	45.56
Sales	78.75	86.25	93.75	101.25	105.00	112.50
Total	146.81	146.81	146.81	146.81	150.56	158.06
YIELD 21.00						
Ins pmt	9.11	9.11	9.11	9.11	9.11	9.11
Price pmt	31.50	21.00	10.50	0.00	0.00	0.00
Sub	40.61	30.11	19.61	9.11	9.11	9.11
Sales	110.25	120.75	131.05	141.75	147.00	157.50
Total	150.86	150.86	150.86	150.86	156.11	166.61
YIELD 30.00						
Ins pmt	0.00	0.00	0.00	0.00	0.00	0.00
Price pmt	45.00	30.00	15.00	0.00	0.00	0.00
Sub	45.00	30.00	15.00	0.00	0.00	0.00
Sales	157.50	172.50	187.50	202.50	210.00	225.00
Total	202.50	202.50	202.50	202.50	210.00	225.00

Farm debt restructured--CA modified debt recovery program

Nationally, the total farm debt has increased dramatically, from around $54 billion in 1971 to $212 billion in 1985. But even more important, the nature of the debt has changed dramatically. Debt today has a much shorter maturity.

Much of the short-term debt is indexed to current interest rates. Even real estate loans frequently have variable interest rates or are based on relatively short contract purchases. Maturities on a great deal of real estate debt have moved from 20–25 years in the 1960s and 1970s to 10–15 years or less today.

Today, a substantial group of good farmers face bankruptcy for lack of a way to make the transition from an economy of high inflation, rising land values, and low interest rates to one of low inflation, falling land values, and very high real interest rates. This group, mostly full-time farmers, contracted debt that was manageable when it was incurred, but became a crushing burden when economic conditions changed.

For farm debtors to pay off their obligations, a major program will be necessary to restructure a part of those debts. For most, the only way current obligations can be met is if current payments are reduced. This can be done in three steps: (1) principal payments must be stretched out to reduce annual cash payments; (2) on at least part of the debt, interest must be reduced; and (3) to make these changes possible, risks must be shared.

The CA proposal would use three existing FmHA programs, the Approved Lenders Program, the Loan Guarantee Program, and the Direct Loan Program. Each would be modified slightly to create a Modified Debt Recovery Program.

The heart of the CA debt recovery proposal is the modification of FmHA's Approved Lenders Program.

Under this program, qualified commercial lenders are approved in advance to process FmHA Operating, Ownership, and Economic Emergency Guaranteed Loans. The lender, once approved, makes and services the loans and collects loan payments. Paperwork and FmHA approval time are reduced. The lender is responsible for seeing that proper and adequate security is obtained and maintained, but FmHA retains the final decision on eligibility, credit worthiness, and loan purpose.

In today's farm economy, there are many farmers whose debt-to-asset ratios are between 40 and 70 percent and who are caught in a "credit availability gap." These farmers have serious financial problems and do not quite meet the credit standards of private commercial lenders, but are relatively stronger than normal FmHA borrowers. Their cash flow is inadequate under current high interest rates and low commodity prices even though their basic personal net worth and equity remain relatively strong. They may have adequate security to satisfy the bank, yet such loans are "classified" by bank regulators. For the bank, every classified loan reduces the amount of assets against which credit can be made available.

FmHA guaranteed operating loans are to be used for the purchase of farm machinery and equipment, basic livestock, annual operating expenses, and refinancing for authorized operating loan purposes. They may not be used to purchase or refinance land, finance lease costs. Interest rates may be fixed or variable but cannot exceed the rate in the area. The terms of the loan may be up to seven years on basic security. Quality loans may be guaranteed up to 90 percent while high risk loans may receive less than a 50 percent guarantee.

FmHA's Loan Guarantee Program can give commercial lenders the additional security to serve farmers who find themselves in a "credit gap." The program is not a bailout for lenders. Unless the loan meets requirements, FmHA will not approve it.

Such a program helps in several ways. First, it makes credit available to those who have difficulty finding loans. Second, bankers use their own (pre-FmHA approved) loan forms familiar to both the borrower and the banker, and reduce FmHA's paper-handling load. Third, credit is available more quickly. Fourth, because the banker and borrower are familiar with each other, loans are likely to be better quality. Fifth, the borrower is more likely to be able to stretch out the loan. Commercial lenders normally have five-year maximums on operating loans while FmHA Loan Guarantees have a maximum of seven years.

CA's modified debt recovery program

CA proposes a modification of both the FmHA Approved Lenders Program and the Direct and Insured Loan Programs to help restructure farm debt.

A principal modification to the Approved Lenders Program would be to place a maximum rate to be charged on interest. Under the Approved Lenders Program, interest rates may not exceed the prevailing interest rate in the areas in which the loan is made.

Under the program as modified, a maximum interest rate would be set at two and one-half percentage points above the Federal Reserve discount rate. This would serve to reduce the maximum rate under the program by perhaps one to three percentage points.

The argument will be made that such an interest rate ceiling will discourage participation in that program and make it unworkable. Based on my experience as a banker, I do not believe that is true. Commercial lenders value the program and will use it willingly to help deal with today's problem.

Clearly, there is a need to lower interest rates in order to create a more achievable positive cash flow-debt repayment plan for many farm borrowers. In addition to the obvious advantage of lower interest rates, a lower maximum interest rate would create opportunities for additional farm borrowers by encouraging lenders to graduate borrowers to a regular commercial status.

The second principal modification would be to expand the program to permit the commercial lender to make and service FmHA Direct Loans.

FmHA Direct Loans are made for both operating expenses and farm ownership. Operating loans may carry an interest rate as low as seven and one-fourth percent and may be repaid in up to 15 years.

Both lower interest rates and longer repayment terms will be required to attain a manageable, attainable cash flow for many farm borrowers.

The CA Modified Debt Recovery Program would incorporate both FmHA Direct and Guaranteed Operating Loans into the current Approved Lenders Program. The pre-FmHA approved commercial lender would process the paperwork for FmHA Direct Operating Loans, using the commercial lender's forms. FmHA would still have the final say-so on the loan, with a relatively quick approval or denial. Appraisals would be done by the commercial lender or another qualified appraiser. The main change in the present FmHA Direct Operating Loan Program would be to share security on a prorated basis. Financial risk sharing would create far fewer complications than the present system of named security.

A farm borrower with $100,000 indebtedness, and whose cash flow would permit $21,000 in debt retirement annually, may be in extreme financial difficulty today. If he has a five-year commercial loan at 14.5 percent interest, cash needs for debt service will be $34,500, $20,000 to repay principal and $14,500 for interest. This farmer will be unable to meet that payment.

If the farmer has a seven-year Approved Lenders Loan at 14.5 percent interest, a payment of $28,785 will be required ($14,285 principal and $14,500 interest), still $7,785 more than can be paid.

If a CA Modified Debt Recovery Program were available, one of two approaches would be used, with each reducing the cash obligations below the $21,000 amount available.

Option A would split a farmer's debt evenly between a guaranteed loan at 10½ percent for seven years, and a direct FmHA loan for 15 years at 10¼ percent interest.

Guaranteed Loan, $50,000 for 7 years, 10½ percent interest.

Principal	$7,143
Interest	5,250
Cash payment	12,393

Insured Loan, $50,000 for 15 years, 10¼ percent interest.

Principal	$3,333
Interest	5,125
Cash payment	8,458
Total cash payment	20,851

Option B would split a farmer's debt between a $60,000 guaranteed, seven-year loan at 10½ percent and a direct $40,000 low interest FmHA loan for 15 years at 7¼ percent.

Guaranteed Loan, $60,000 for 7 years, 10½ percent interest.

Principal	$8,571
Interest	6,300
Cash payment	14,871

Direct Loan, $40,000 for 15 years, 7¼ percent interest

Principal	$2,666
Interest	2,900
Cash payment	5,566
Total cash payment	20,437

In these examples, the Modified Debt Recovery Program reduced interest payments and lengthened the repayment period. The result would be an achievable repayment schedule.

Not only would this program be effective, it could be offered at relatively modest cost. On January 1, 1985, the debt structure of American agriculture was:

U.S. AGRICULTURAL DEBT

[Dollars in billions]

	Jan. 1, 1984	Jan. 1, 1985
Real estate:		
Federal land banks	$48.12	$48.44
FmHA	10.07	9.96
Life insurance companies	12.31	12.37
Commercial institutions	8.95	10.18
Individuals and others	32.45	29.90
Total	111.90	110.85
Nonreal estate:		
Production credit associations	18.58	18.13
FmHA	15.48	15.21
Federal intermediate credit banks	0.82	0.88
Commercial institutions	38.18	40.56
Individuals and others	18.58	18.20
CCC	10.32	8.30
Total	101.96	101.28

Considering only the nonreal estate debt of $101.28 billion and excluding the debt held by FmHA, CCC, and other noncommercial lenders leaves a balance of $59.57 billion held by commercial institutions. Further, excluding the estimated $30.02 billion owed by part-time farmers and the very high risk operators leaves a balance of $29.55 billion held by full-time farmers. We estimate that ten percent of those farmers are in serious difficulty with debt-to-asset ratios of 40 to 70 percent, but that they can repay these loans if they are restructured. Thus, our program is to reschedule debt estimated to be $2.945 billion as of January 1, 1985.

If the $2.9 billion in debt restructuring were split evenly between the guaranteed/direct type blend and the guaranteed/insured blend, and if the cost of money to the government averaged 10.5 percent during the period, the annual cost of this program to the government would be $42.7 million during the first seven years, $29.4 million during the last eight years, for a total of $533 million, including an allowance of one percent of the total or $337 million in administrative costs. Interest subsidies would total $197 million over the 15-year period.

In the examples, the Modified Debt Recovery Program significantly reduced interest costs and lengthened the repayment period. The result is a reasonable and achievable cash flow.

Perhaps the most important feature of the Modified Debt Recovery Program is sharing the risk. The program accomplishes this directly by bringing the government in on a percentage of the Approved Lenders Program. Debt is restructured by adding the Direct Lending Program, and interest is lowered with a combination of reduced loan rates and the addition of an interest rate ceiling on the guaranteed loans. The Modified Debt Recovery Program utilizes the assets of FmHA, the types of funds which are already available, and adds the expertise of commercial lenders.

Thank you very much for your attention. I will be glad to answer any questions you may have.

STATEMENT OF RALPH J. ROHNER, THE COLUMBUS SCHOOL OF LAW, THE CATHOLIC UNIVERSITY OF AMERICA, ON BEHALF OF THE AMERICAN MEAT INSTITUTE

Mr. Chairman and Members of the Subcommittee: I am Ralph J. Rohner, and I am a Professor of Law at the Catholic University of America in Washington, D.C., where I have taught courses in the commercial law area for twenty years. I submit this statement on behalf of the American Meat Institute, the national trade association representing packers and processors of meat and meat products. I take this opportunity to bring to this Committee's attention a problem in state law that seriously threatens the economic viability of many in the agricultural community.

AMI strongly supports H.R. 1591, the Stenholm/Gunderson "clear title" bill, introduced in the House of Representatives on March 19, and S. 744, introduced in the Senate by Thad Cochran on March 26, both of which would amend the Farm Bill to remedy a situation that is simply fundamentally unfair to the purchasers of agricultural products. A broad-based coalition of other organizations also representing buyers of farm products supports those bills as well. Under the uniform commercial law in all states save California, purchasers who in good faith pay sellers for farm products remain legally subject to the liens of lenders covering those farm products. If a seller/debtor defaults on the loan, or fails to account for the sale proceeds, the buyer can be forced to pay twice for the goods, once at the time of sale and again—often months or years later—when the bank or other lender sues the purchaser for conversion of its collateral. This result obtains because of an antiquated limitation on the good faith purchaser rule in section 9-307 of the Uniform Commercial Code. Buyers of commercial inventory generally take free and clear of earlier security interests, but buyers of agricultural inventory—"farm products"—do not.

We have earlier submitted to both the Senate and the House an extensive analysis of this state law rule, and we would be happy to supply further copies of that analysis to this Committee and its staff.

Hearings were held on this problem in the House in 1983 and 1984, and in the Senate in 1984. The record of those hearings is replete with first-hand testimony of the hardship and inequity caused by the UCC provision. The aggregate amount of claims filed by lenders against innocent purchasers of crops and livestock easily runs into millions of dollars just based on the statements of prior Congressional witnesses. The typical case is one where a rancher or farmer sells his crop or herd to a buyer who is unaware that there are outstanding liens on the goods. The producer fails to account for the sale proceeds to the lender holding the security interest, and when the producer then defaults on the loan the lender files a claim against the buyer on the theory that the purchaser has unlawfully "converted" the lender's collateral. Such claims force the buyer to pay again for the same goods.

The source of this problem—the so-called "farm products exception" of the UCC—is, we submit, an unjustifiable rule of law that ought to be abrogated by federal statute, as H.R. 1591 and S. 744 would do.

Our earlier statements describe the anomalous nature of the farm products exception, its uncertain history, its disfavored treatment by some courts, and its harsh and unpredictable burden on farm products buyers. To summarize:

The special farm products rule runs against the grain of general commercial law which seeks to encourage the free flow of commerce by protecting good faith purchasers from the risk of prior liens. Generally, the law allows buyers who purchase goods in the normal course of business to acquire full ownership. For example, when a customer pays a retailer for a refrigerator, the bank that is financing the retailer's inventory cannot thereafter pursue a claim against the customer. The same rule would apply when the retailer purchases its stock of appliances from the manufacturer: as a buyer in the ordinary course of business, the retailer would be protected from claims by the manufacturer's bank. By contrast, under the special rule for farm products, the continuation of the lenders' security interest frustrates the free movement of goods in commerce, and has never had a clear policy justification.

Farm products purchasers are, as a practical matter, utterly unable to verify reliably the existence of security interests at the time of purchase. The UCC filing system which theoretically discloses such liens, is generally based on filings in the producer's home county, a location that is effectively often inaccessible in the short time frames in which farm products sales are conducted, particularly when those sales are conducted on an interstate basis.

The effect of the rule gives the farm products lender a set of involuntary guarantors on every loan it writes. A borrower's failure to account for the proceeds of sale becomes the risk not of the professional lender, but of the various innocent third parties downstream in the distribution chain. The persistence of the rule bodes ill for the financial health of farm products purchasers, especially small operators who simply cannot afford to pay twice for their agricultural commodities.

The Stenholm/Gunderson bill and the Cochran bill both recognize the basic unfairness of the present farm products exception. The case against the rule is so strong and self-evident—in law school we would say prima facie—that Congress' failure to act on it must be based on compelling grounds. We suggest, therefore, that the burden is on the agricultural lending industry to demonstrate a justification for continuing the rule. They have failed to make a case in prior Congressional testimony.

The lenders argue that commerce in farm products is somehow so unique—compared to other forms of commercial inventory—that the farm products exception is necessary for one but not the other. We deny any such uniqueness to farm products financing. Decisions to lend in all cases are based on prudent assessments of the borrower's capacity and character. The burdens assumed by commercial inventory lenders always include monitoring their debtor's activities, and one of the inherent risks is the possible loss of collateral to third party buyers in the ordinary course of business; yet inventory financing flourishes. We have heard nothing that supports any claim by farm products lenders that their market uniquely entitles them to protections not available to other commercial financers.

The lenders suggest that the buyers of agricultural products enjoy "inherent advantages" to protect against the risk of seller default. On the contrary, in the hurly-burly of cash sales, buyers are virtually powerless to determine, on their own initiative, the existence of outstanding liens and the identities of the lienholders. They buy blind. The lenders, on the other hand, are risk-taking professionals who ought to be able to monitor their debtors' activities sufficiently well to prevent dissipation of proceeds. It may well be that the farm products rule has contributed to shoddy lending practices.

Then the lenders raise the bogeyman objection that repeal of the farm products exception would substantially increase their financial losses and thus significantly raise the cost of credit. We disagree. Whatever impact a change in the law might have, its effects on the cost and availability of farm credit are likely to be negligible if even measureable. The state of California repealed the farm products exception in 1976; if there is any evidence that our largest agricultural state, or the lenders or producers within it, are suffering on that account, we are unaware of it. The likely reality is that, with the farm products exception gone, lenders will tighten their administrative supervision of producers to minimize the risk of unaccounted-for proceeds. It could be that changing the law in this regard will reduce lender losses by encouraging more prudent practices across the board.

Finally, the lenders argue that a number of states are experimenting with techniques to ameliorate the effects of the farm products exception, and that federal preemption is therefore inappropriate. The argument collapses on itself. Yes, some states have enacted legislation, but the content and form of those special rules vary in each enacting jurisdiction. The overlay of these recent enactments on the UCC itself creates a new dimension of complexity for lenders, producers and buyers. It is counterproductive in interstate sales settings where the applicability and details of a given state's law may be in doubt.

More fundamentally, what the state legislative activity has produced is substantial non-uniformity among the states on the respective rights and obligations of lenders and buyers of agricultural products. Allowing the states to continue this idiosyncratic tinkering with the UCC can only lead to greater uncertainty as to the controlling law. It is a disingenuous argument to suggest that a problem that arises from a provision of the Uniform Commercial Code should be left to non-uniform resolution by the states.

What these circumstances really indicate, we submit, is the need for a uniform national rule that fairly respects the needs of buyers of agricultural products. A uniform national rule is not likely to emerge from the states or from the UCC sponsors. Congress has not only the prerogative but the responsibility to supply the needed stability and consistency. This is especially true in the case of the agricultural markets for which Congress has already assumed a substantial supervisory role, and for the Federal farm credit programs where state rules would be preempted by Federal policies.

Ultimately, the sole question presented by H.R. 1591 and S. 744 is whether Congress should act to correct an inequitable and capricious state law rule that has inflicted millions of dollars of losses on purchasers of farm products. We certainly believe Congress should so act, along the lines of these bills.

These pending bills offers a temperate, workable solution. Buyers of farm products in the ordinary course of business would be protected from prior liens, but a buyer would not qualify for this protection if the buyer had been specifically notified of the outstanding lien and had then failed to issue a joint-payee check or otherwise comply with the lender's conditions for release of its lien. Both the lender and the buyer would assume responsibilities for assuring that the sale proceeds were not dissipated. This is an approach all parties should be able to live with, without hardship on either side.

We encourage favorable action by the Committee and the Congress to eliminate or modify the farm products exception. Thank you for considering the views of the American Meat Institute.

STATEMENT OF THE AMERICAN FEED MANUFACTURERS ASSOCIATION

Chairman Lugar, members of the committee, this statement is made on behalf of the more than 600 member companies of the American Feed Industry Association. AFIA is the national trade association representing the manufacturers of over 70 percent of the primary livestock and poultry feed sold in the U.S. each year.

The U.S. feed industry annually buys $10–15 billion in feed ingredients, mostly grain and byproducts, making the U.S. feed industry the single largest domestic user of grain. AFIA is naturally concerned with the ability of our farmer-suppliers to obtain credit and to continue to operate as productive businesses.

However, since feed represents 50–75 percent of the cost of producing meat, milk and eggs at the farm level, anything which negatively affects our ingredient costs, over the long run must be reflected in the cost of our feed products to the livestock and poultry farmer, and ultimately in the consumer cost of meat, milk and eggs.

One of the biggest uncontrollable out-of-pocket costs to grain buyers in the U.S. is the risk of double payment due to undisclosed liens on mortgaged commodities sold by farmers. AFIA is filing this statement in support of Sen. Cochran's bill S. 744, which recognizes the direct negative economic impact from undisclosed crop liens on the innocent buyer of farm products, and the indirect adverse effect on farmers and consumers. Sen. Cochran's bill eventually will be offered as an amendment to this committee's 1985 farm bill.

AFIA is one of 17 national agricultural groups supporting S.744 as an amendment to the 1985 farm bill to ensure fair treatment for the buyers of farm products. Our problem is the 35-year-old "farm products exception" contained in Sec. 9–307(1) of the Uniform Commercial Code. It is this section that treats the buyers of farm products differently than any other buyer in U.S. commerce. It allows lenders who make loans against which crops or livestock are pledged as collateral to legally force the innocent buyer of those products to pay off that loan if the farmer defaults.

To quickly summarize the effect of the farm products exception on the domestic feed industry:

Over 40 percent of our membership consider undisclosed crop liens on grain a moderate or serious problem;

Risk exposure troubles our membership the most. Risk levels of $50,000 for small companies are common, with some of our corporate multi-state members reporting up to $4 million. Risk exposure at $1 million is not uncommon in the feed industry.

Total double payments reported by AFIA members who responded to our survey exceeded $2 million in 1982. As the farm economy has weakened in the past two years, we firmly believe this total is much higher today as the farm economy has weakened even more. This is the so-called "Ripple" effect that this body worried about during debate on the farm credit crisis recently.

It is readily apparent that a double payment for some small businesses means the difference between surviving these turbulent times or simply going out of business.

Several AFIA member companies have resorted to drastic measures to protect themselves from the risk of double payment. Here is one typical example which will demonstrate how it is not just the innocent buyer of farm products who suffers from undisclosed crop liens, but also the farmer.

One company in Tennessee, because it does not have the manpower, money or time to devote to lengthy expensive lien searches in every county in which it does business (as current law requires), is forced to buy only from sellers who can guarantee the grain they sell is free and clear of liens. This often forces this Tennessee firm to buy from brokers or other middlemen so that the Tennessee company is not the first buyer of any possibly mortgaged grain. In many cases, this forces the company to buy outside of Tennessee.

As members of the committee can plainly see, the actions this company is forced to take to protect itself have a serious effect on prices received by farmers in Tennessee. This is not the only company which does this nor is Tennessee the only State which suffers. For Tennessee farmers, the ultimate result must be a generally lower price for their production since the purchasing volume of this one major company has been removed as a competitive factor in Tennessee grain markets.

Sen. Cochran's bill—S. 744—is very similar to action taken by Illinois, Indiana, Ohio, Kentucky, Tennessee, and lending practices in California. All of these States report the system of pre-notice works well and has resulted in no negative effect on farmers or buyers.

Opponents of S. 744 will argue that lenders will cut back on loans to marginal farmers and raise the cost of loans to other producers if S. 744 becomes law. These problems have not occurred in States which have already instituted various lender pre-notice systems.

Illinois, Indiana, Ohio, Tennessee, and in a similar fashion, California, have all gone to some form of a buyer notification system on farm product liens. In all of these States, the lending community forecast the same result—less AG credit and/or more expensive AG credit. AFIA has repeatedly checked with its member grain and feed associations in those States and asked them for a frank appraisal of the effect of lender pre-notice on credit availability and cost. Each State grain and feed association—and each was active in legislative efforts in its State—report that none of these dire predictions have come true.

They report credit is readily available and that the change in State law had no verifiable effect on interest rates. These State associations report that lenders are operating on the basis of the quality of the borrower and his avialability to repay his loan. They also report their State notification systems are working very well, and in some cases, better than anticipated.

AFIA strongly urges this subcommittee to support S. 744. S. 744 simply gives lenders—and feed companies which finance farmer purchases are also lenders—the option of how they will protect their security interests. Sen. Cochran's bill allows the lender to call the shots on how he gets paid by using pre-notice to make his requirements known to potential buyers. The lender is not forced to do anything.

S. 744 is a moderate approach that will return uniformity to the Uniform Commercial Code. It is an approach that has a proven success record in the several States which have already recognized its wisdom. It is the approach that will return equity to the business of agricultural lending.

AFIA thanks the committee for this opportunity to comment on major credit issue facing the good-faith buyers of farm products. AFIA believes that Sen. Cochran's bill addresses the basic philosophy of this committee's farm bill deliberations, namely fairness. S. 744 will return fairness to farm product commerce with no negative effect on any party to a farm purchase. It will also return uniformity to the Uniform Commercial Code since more than 20 States have tried to remedy this inequity through various legislative approaches that have created a crazy quilt of farm product purchase laws.

STATEMENT OF CATHERINE LERZA, ASSOCIATE DIRECTOR, RURAL COALITION

The Rural Coalition is a national advocacy organization made up of 110 member groups located in rural communities and cities all over the nation. Founded in 1978, the Rural Coalition was created to give rural people, particularly low income people and communities, a voice in the making of public policies that directly affect them. Agriculture is a major concern for the Rural Coalition and 30 of our member groups are active participants in the Coalition's Agriculture Task Force. The Task Force has made public farm credit programs a priority concern and we therefore welcome the opportunity to make a statement for the record as the Senate Committee on Agriculture, Forestry and Nutrition examines the credit portion of the omnibus farm bill. The recommendations contained in this statement were developed by Task Force members and reflect their interests, concerns and experiences.

The Farmers Home Administration (FmHA) is the federal agency with the most direct impact on rural communities. FmHA has provided rural areas with opportunities for economic and community development through farm loan, housing, and water and sewer programs for 50 years. While rural communities have changed a great deal since the agency's creation in 1935, the basic need for its services remains as great as ever. It is imperative that both the FY '86 federal budget and the omnibus farm bill preserve the integrity of the Farmers Home Administration while, at the same time, more effectively targeting its programs. The omnibus farm bill also ought to address issues raised over the past several years regarding FmHA's failure to meet federal civil rights standards in either the implementation of its programs or its internal personnel policies and actions.

Major cost savings at the agency can be achieved by a re-dedication of FmHA of its original mission. Clearly, FmHA cannot be the lender of last resort to every farm in the nation. By more explicitly targeting FmHA programs to family-sized operations that cannot get credit elsewhere and by placing meaningful ceilings on benefits available to individuals, FmHA programs can be made effective, fiscally responsible and of benefit to the greatest number of qualified borrowers.

The following are recommendations for specific and overall changes in FmHA programs and operations:

MAINTAIN AND STRENGTHEN DIRECT OPERATING LOANS (OL) AND FARM OWNERSHIP LOANS (FO)

1. The direct Farm Ownership loan program should be maintained and strengthened. S. 616 proposes to totally eliminate this program in six years and limit any direct loans made in those six years to current borrowers. We support the preservation of this important program because it concretely manifests the Federal government's commitment to the continuation of the family farm system of agriculture. The FO program should be maintained at funding levels equal to FY '85 levels at minimum.

2. The Operating Loan program should be maintained primarily as a direct lending program. S. 616 proposes to permit only current OL borrowers to obtain insured, direct operating loans. All new borrowers (except limited resource borrowers) must use the loan guarantee programs. We oppose this change for several reasons.

First of all, small rural banks will probably not participate in the program, if past experience is any indication of the future. The paperwork and the final risk involved preclude these banks from using the program; it is profitable only for larger, urban-based lenders. Without a major overhaul of loan guarantee procedures to encourage the participation of smaller banks, this change will put smaller rural banks at an increased disadvantage to larger financial institutions. Given the already shaky financial situation facing many rural banks, moving to a loan guarantee program could pose a significant threat to their long term viability.

Secondly, the guarantee program has in the past served farmers much larger than those served by direct loans and it has made, on average, much larger loans. Research from the Center for Rural Affairs in Walthill, Nebraska indicates that in 1984, the average direct farm operating loan was $30,050, while the average guaranteed operating loan was $103,580. As the Center notes, ". . . big farm interests would [be helped by] the conversion of direct loans to guaranteed loans because it would trigger an automatic increase in maximum OL indebtedness from $200,000 to

$400,000. [Note: the current ceiling on direct OL lending is $200,000 per farmer while the guaranteed loan ceiling is $400,000]" This means fewer farmers will benefit from federal loan programs.

3. The Rural Coalition supports a $500,000 per individual ceiling on total FmHA farm program indebtedness in order to better target programs and make federal assistance available to as large a number of producers as possible.

4. Basic eligibility criteria for all FmHA farm loan programs should be revised and the new standard applied equally to all farm borrowers. (Currently, only the FO and OL programs must, by law, go solely to family-sized farmers. The economic emergency program (EE) requires only a "preference" for family sized farmers while the economic emergency (EM) program is available to all farmers.) We support amending Section 302 and Section 311 of the Consolidated Farm and Rural Development Act of 1961 as indicated in Attachment 1.

RETAIN AND STRENGTHEN THE LIMITED RESOURCE BORROWER PROGRAM

The limited resource loan (LR) program should be protected and expanded. This program, which offers lower-than-market-interest rates to qualified borrowers, serves creditworthy farmers who cannot qualify for an FmHA loan without a small interest subsidy. The LR program has been especially helpful to low income and minority producers and with more careful targeting, better outreach, and expanded funding, could be made even more useful.

Elimination of the FO program and the shift of the OL program to a guaranteed loan program will effectively eliminate the limited resource borrower program. Since 1978, the LR program has made regular direct OL and FO loans available to low income farmers at subsidized interest rates. The provisions of S. 616 relating to FmHA interest rates would preclude the possibility of an interest subsidy. And while S. 616 states that "low income, limited resource borrowers" may obtain direct OL and FO loans (until 1991), no definition of that category is given, making it difficult for potential borrowers to determine if they might qualify for such a program. And since S. 616 eliminates all interest subsidies (see page 8) and requires that full interest rates be raised incrementally until they equal private market rates (see Section 1606), low income, limited resource borrowers, the ones reached by the current LR program, will not be able to meet repayment requirements.

The Rural Coalition believes the current LR program should be retained and strengthened along the following lines:

1. FmHA should provide a new definition of eligible limited resource (LR) borrowers which encourage entrants who have the necessary background or qualifications to make them successful farmers.

2. FmHA should make more readily available (to minority farmers particularly) public information and publications on all FmHA programs, including the LR program, to encourage advance planning prior to application.

3. The LR minimum quota, currently 20 percent of total regular farm program funding, should be raised incrementally every year over the life of the 1985 farm bill, until it achieves 35 percent of regular farm program funds.

4. The LR operating loan interest rate formula should be changed to that now used for LR farm ownership loans (one-half the cost of money to the government).

5. FmHA should examine and improve the regulatory mechanisms governing the LR programs with the goal of providing maximum flexibility in repayment schedules, tailored to reduce cash flow problems.

PRESERVE EXISTING FMHA FARM PROGRAM INTEREST RATES

1. S. 616 proposes that FmHA interest rates, now set at cost of money to the federal government, by raised by not less than one percent and not more than 1.25 percent each fiscal year until FmHA rates are equal to those found in private markets and, in fact, makes it no different than a commercial lender. The Rural Coalition supports the maintenance of FmHA interest rates at cost of money so that the agency can continue to give creditworthy borrowers who cannot afford commercial rates a chance to be successful farmers.

2. The Rural Coalition supports a continuation of an interest subsidy for qualified limited resource borrowers and, as noted in the preceeding section, supports a change in the limited resource operating loan program interest rate formula so that it is the same as the ownership loan formula: 50 percent of the cost of money to the federal government.

3. The Rural Coalition also supports the creation of an interest rate preference (one to two percent) for farmers who use good resource conversation practices. These practices would be certified, at the time of loan making, by county Soil Conservation

Service (SCS) officers and monitored by SCS and FmHA personnel to assure continued adherence to them.

MAKE COUNTY COMMITTEES MORE RESPONSIVE TO LOCAL BORROWERS

The actual numbers and overall percentage of minority farmers serving on FmHA county committees have dropped significantly since 1980. (See chart next page.) In 1980, there were 256 black committee persons, or 4.3 percent of total membership. In 1983, there were only 156 black county committee persons, or three percent of the total. To insure that county committees reflect the actual population of the counties or areas which they serve, the Rural Coalition proposes that a new county committee selection procedure be developed so that two of the three members are selected by the farmers in the county or area through an election set up by the Secretary of Agriculture. A third member of the county committee shall be selected by the Secretary to accurately reflect the proportion of minority farmers in the country of area. At least two members of the county committee shall be farmers who derive the principle part of their income from farming. (See Attachment 2 for legislative language.)

FmHA COUNTY COMMITTEE MEMBERSHIP, UNITED STATES AND SELECTED STATES

	Membership	Total
1983		
Black:		
United States	187	[1] 6,130
North Carolina	10	236
South Carolina	23	138
Texas	16	444
Georgia	6	195
Mississippi	15	232
Hispanic:		
United States	79	[2] 6,130
California	1	80
Texas	17	444
New Mexico	10	77
Native Americans:		
United States	34	[3] 6,130
North Dakota	3	142
South Dakota	1	131
Nebraska	0	187
1980		
Black:		
United States	256	[4] 5,921
North Carolina	31	215
South Carolina	19	93
Texas	18	482
Georgia	24	212
Mississippi	21	158
Hispanic:		
United States	135	[5] 5,971
California	3	76
Texas	30	482
New Mexico	24	82
Native American:		
United States	31	[6] 5,971
North Dakota	5	140
South Dakota	2	141
Nebraska	0	190

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[1] 3 percent.
[2] 1.2 percent.
[3] 0.05 percent.
[4] 4.3 percent.
[5] 2.2 percent.
[6] 0.05 percent.

Source: Date from U.S.D.A. Office of Equal Opportunity, September 1984.

REFORM FMHA LOAN SERVICING PRACTICES

In order to insure that FmHA carries out the deferral provisions of the Emergency Agricultural Credit Adjustment Act of 1978, FmHA farm loan servicing practices. These reforms (see Attachment 3 for specific language) are in line with the decisions handed down by federal district courts in the Allison v. Block and Curry v. Block cases:

1. Clarifying that "circumstances beyond the borrower's control" include broad economic factors like unexpected high interest rates and low commodity prices.
2. Providing minimum standards for the release of income security for family living and operating expenses.
3. Instituting a permanent "right to cure default" which prevents unnecessary accelerations and foreclosures.
4. Creating an emergency farmstead protection plan which, during specified emergencies, allows a borrower to temporarily exempt from acceleration and foreclosure limited, minimal farmstead assets.

IMPROVING FMHA FARMLAND INVENTORY DISPOSAL PROCEDURES

The amount of farmland held in FmHA's inventory has been increasing, and will doubtless continue to increase, as a result of rising numbers of foreclosures and voluntary conveyences of property to the agency. Given FmHA's historic mission to provide farming opportunities to family farmers who cannot get credit elsewhere, this land should be leased or sold by FmHA to qualified family farmers. Current law (Section 335 of the Consolidated Farm and Rural Development Act) states that FmHA may give eligible family farmers the opportunity to lease or buy inventory land, but does not lay out procedures for actually doing so. The Rural Coalition supports strengthening Section 335 by:

Limiting the sale or lease of FmHA inventory to family farmers eligible for FO and OL loans in parcels of a size that can be efficiently operated by a farm family;

Giving special priority for leasing to previous owners the land being leased;

If more than one eligible farmer is identified, final decision shall be made by recorded vote of the FmHA county committee;

If no eligible family farm buyers or leasors can be located, FmHA can lease the land to other operators on an interim basis, but should continue to search for an eligible family farmer to buy or lease the land.

GENERAL CHANGES

1. An ombudsman office should be created within FmHA with authority to investigate borrower complaints and recommend corrective reforms to the Administrator.
2. The FmHA appeals process should be improved (See Attachment 4 for specific language.)
3. FmHA should establish a bipartisan committee whose membership includes farmers and financial experts to develop a new Farm and Home Plan system consistent with FmHA program goals to replace both the old one and the new, controversial Consolidated Financial Statement.
4. FmHA should analyze and report on the use of guaranteed loans, including detailed information on types of borrowers served, loan amounts, interest rates, types of loans, and other relevant data. This report should be completed by September 30, 1986.
5. FmHA should develop a family farm loan renewal plan to selectively renew delinquent notes in the cases where there is a reasonable chance of long-term survival, establishing a borrower's liability at the current value of FmHA's security so long as the farmer continues farming.

We thank this Committee and its Chairman for the opportunity to make this statement. We believe that the proposals put forth in this statement would go a long way toward helping farmers now facing financial crisis; toward making FmHA a fiscally responsible agency; toward ending patterns of racial discrimination that exist within FmHA programs and in its internal personnel policies; and toward serving those creditworthy farmers whose only failing is a lack of necessary financial resources. For 50 years, FmHA has made the difference for hundreds of thousands of farmers who might not have been able to enter farming without its help. Those farmers have been a profitable investment for rural America—and for all America.

The Rural Coalition therefore urges this Committee and the entire Senate to strongly re-iterate their support for FmHA in the omnibus farm bill. At the same time, the Rural Coalition also urges the Committee to carefully assess all FmHA programs to insure that they continue to further the agency's historic mission—service farmers and rural people who cannot be served by the private sector.

[Attachment 1]

Subtitle A: Real Estate Loans

Note: ——= new language

"Sec. 302 (7 U.S.C. 1922). Persons eligible for loans. The Secretary is authorized to make and insure loans under this subtitle to farmers and ranchers in the United States, and to farm cooperatives and private domestic corporations and partnerships that are controlled by farmers and ranchers and engaged primarily and directly in farming or ranching in the United States, subject to the conditions specified in this section. To be eligible for such loans, applicants who are individuals, or, in the case of cooperatives, corporations, and partnerships, members, stockholders, or partners, as applicable, holding a majority interest in such entity, must (1) be citizens of the United States, (2) have either training or farming experience that the Secretary determines is sufficient to assure reasonable prospects of success in the proposed farming operations, (3) be or will become owner-operators of not larger than family farms as defined in (b) of this section (or in the case of cooperatives, corporations, and partnerships in which a majority interest is held by members, stockholders, or partners, as applicable, who are related by blood or marriage, or defined by the Secretary, such individuals must be or will become either owners or operators of not larger than a family farm and at least one such individual must be or will become an operator of not larger than a family farm). * * *

"(b) A "family farm" as used in this subtitle and as determined by the county committee for loan eligibility is a farm which (1) is managed by the individual(s), stockholder(s), member(s), or partner(s) and (2) has the majority of all farm labor provided by the individual(s), stockholder(s), member(s), or partner(s) and any immediate family member(s). The Secretary may publish regulations, not inconsistent with this subsection, which further define family farm.

Subtitle B: Operating Loans

Sec. 311 (7 U.S.C. 1941). Persons eligible for loans. (a) The Secretary is authorized to make and insure loans under this subtitle to farmers and ranchers in the United States, and to farm cooperatives and private domestic corporations and partnerships that are controlled by farmers and ranchers and engaged primarily and directly in farming or ranching in the United States, subject to the conditions specified in this section. To be eligible for such loans, applicants . . . must . . . (3) be or will become operators of not larger than family farm as defined in (c) of this section * * *

(c) A "family farm" as used in this subtitle and as determined by the county committee for loan eligibility is a farm which (1) is managed by the individual(s), stockholder(s), member(s), or partner(s); (2) has the majority of all farm labor provided by the individual(s), stockholder(s), member(s), or partner(s) and any family members. The Secretary may publish regulations, not inconsistent with this subsection, which further define family farm.

[Attachment 2]

Sec. 332 (7 U.S.C. 1982). County committees.

(a) The Secretary is authorized and directed to *appoint in each county or area in which activities are carried on under this chapter,* establish a county committee composed of three individuals residing in the county or area, at least two of whom *at the time of appointment shall be farmers deriving the principal part of their income from farming* shall be chosen by farmers in the county or area through elections set up by the Secretary. A third member shall be appointed by the Secretary to accurately reflect the proportion of minority farmers in the county or area. At least two members shall be farmers who derive the principal part of their income from farming. Committee *appointments* positions shall be for a term of three years except that the first *appointments* selections shall be for a term of three years except that the first *appointments* selections for any new committee shall be for one-, two-, and three-year periods, respectively, so as to provide continuity of committee membership. The Secretary may appoint alternate *committeemen* committee members. The members of the committee and their alternates shall be removable for cause by the Secretary.

Sec. 2. Section 331A of the Consolidated Farm and Rural Development Act (7 U.S.C. 1981a) is amended—

(1) by designating the first and second sentences as subsections (a) and (b), respectively; and

(2) by adding at the end thereof the following new subsection:

"(c) For purposes of subsection (a), the term 'circumstances beyond the borrower's control' includes, but is not limited to—

"(1) a reduction of the income of a borrower occurring after August 4, 1978, as a result of—

"(A) the unemployment or underemployment, illness, or injury of the borrower;

"(B) the death of a member of the family of the borrower; or

"(C) the occurrence of a natural disaster, crop or livestock disease, insect damage, or adverse conditions in the farm economy (such as high interest rates, declining farm equity or high cost of production relative to the market price for farm products); and

"(2) the occurrence of unplanned, essential farm and home operating expenses as a result of—

"(A) the illness or injury of the borrower;

"(B) the death of a member of the family of the borrower; or

"(C) the cost of repair, or uninsured loss, of property used to secure a loan made under this title.".

RELEASE OF NORMAL INCOME SECURITY

Sec. 3. The Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) is amended by adding at the end thereof the following new section:

"Sec. 349. (a) As used in this section:

"(1) The term 'normal income security' has the same meaning given such term in section 1962.17(b) of title 7, Code of Federal Regulations (as of January 1, 1984).

"(2) The 'poverty line' has the same meaning given such term in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2)).

"(b) The Secretary shall release from normal income security amounts sufficient—

"(1) to assure that the income of the household of the borrower exceeds the poverty line by at least 50 percentum; or

"(2) to pay necessary farm operating expenses incurred in the production, or marketing of crops, livestock, poultry, or products, as determined by the Secretary.

"(c) To assist in the determination of necessary farm operating expenses under subsection (b)(2), the Secretary shall publish a schedule of necessary annual production costs for each State or region.".

EFFECTIVE DATE

Sec. 4. The amendments made by this Act shall become effective on the date of the enactment of this Act and be implemented by regulation no later than sixty days after such date.

[Attachment 4]

VIII. REFORMING FMHA'S ADMINISTRATIVE APPEAL PROCESS

Disagreements between FmHA local officials and farmers typically involve complicated contractual relationships, the use and interpretation of detailed regulations, and technical choices among different farming and livestock production techniques. In addition, very large sums of money are at stake, and timing can be very critical. Increasingly over the last three years, the livelihood of the farm family has been at stake. The current FmHA appeal system has been unable to deal with these demands or fulfill the purposes of an administrative appeal system.

FmHa statistics (1983) show that 3.6% of appealed FmHA decisions are reversed. By way of contrast, the Social Security Administration has a reversal rate over 50%. FmHA's appeal system (7 CFR 1900 et. seq.) has been frustrating and largely futile for both farmers and FmHA local officials.

A healthy appeal system would provide a mechanism for testing and protecting the integrity of the important public purposes delegated by Congress to FmHA. In the case of FmHA farm loan programs, an appeal system must be designed to cope with the complexity of FmHA farm loans and should strive to:

Treat farmers in like circumstances consistently;

Facilitate quick, local settlement of disputes especially those involving critical timing decisions like planting, harvesting, feeding and marketing;

Where local settlement fails, provide objective resolution of disputes by an independent hearing officer;

Provide the agency with a more effective system of checks and balances to measure FmHA loan officers' understanding of and effectiveness in program implementation;

Facilitate agency identification of patterns of farmer disputes that need national office policy attention and resolution.

The following proposed new section [333A] to the Consolidated Farm and Rural Development Act is an attempt to accomplish the above purposes. The major components include:

Informal meetings to facilitate resolution of disputes at a local level and minimize the need for formal appeals;

One formal hearing where the informal meetings are unsuccessful;

An administrative law judge, available at the state level but functioning as part of the Secretary of Agriculture's office to conduct the formal hearing and provide an independent resolution.

Some of the proposed changes adopted practices currently part of FmHA's administrative appeal system. 7 C.F.R. 1900. The use of administrative law judges (ALJ) would simply extend the present system of USDA ALJ's. 7 C.F.R. 1.130. We estimate that the number of ALJ's would need to be increased and developed to provide state level hearings. These changes will incur costs, but these will be significantly offset by the proven benefits of independent hearing officers used in most other federal appeal systems and the direct savings of staff time involved in the current appeal system. Recently this has included sending FmHA officials, and in some cases borrowers, to nearby states to assure that an uninvolved FmHA official is available to preside over certain types of hearings.

A new section is added to the Consolidated Farm and Rural Development Act:

"Sec. 333A. Any farm program borrower or applicant (hereinafter "applicant") directly and adversely affected by any FmHA decision made under this Act shall be given written notice and an opportunity for informal meetings and a hearing on the record in accordance with regulations promulgated by the Secretary of Agriculture. These regulations shall, at a minimum, include the provisions described below."

Comment: (1) This proposed appeal system is limited to farm program decisions. Appeal of housing program decisions are separately authorized. 42 U.S.C. 1480(g). (2) The proposed system includes "any" farm program decision, thereby excluding the "unappealable" decisions claimed by FmHA in their current appeal system. 7 C.F.R. 1900.53. Examples of these currently unappealable decisions include appraisals of real property and debt settlement actions.

"(a) *Written notice.* Within ten days of any adverse decision an applicant shall be provided written notice of the decision and notice of the opportunity for informal meeting(s) and formal hearings provided for in this section. The borrower or applicant shall also be provided an outline of the appeal process, including maximum time deadlines."

Comment: This proposal changes the current regulatory period of fifteen days to ten days.

"(b) *Appellants' rights.* Any appellant for farm program services under this Act shall have the following rights: (1) unconditioned access to the applicant's personal file including a reasonable opportunity to inspect the file at the agency's office and cooperation in reproducing the file or parts of the file; the agency may charge reasonable costs for file reproduction where costs are incurred; (2) representation by an attorney or non-attorney when inspecting and reproducing files, at informal meetings under subsection (c) or formal hearings under subsection (d)."

Comment: Problems with access to an appellant's file continued to be a problem despite attempts to correct the problem administratively. Subsection (b)(1) basically adopts the position of a 1983 FmHA's Adminstrative Notice (now expired) that "all material must be released." (FmHA AN No. 839, April 25, 1983).

"(c) *Informal meeting.* The Secretary shall adopt procedures for an informal meeting between an aggrieved applicant and agency officials. The purpose of such meetings will be to provide an opportunity for both parties to reconsider and resolve differences and minimize the need for formal appeals under subsection (c). The procedure shall:

"(1) not jeopardize the rights of the applicant or borrower to further review under this section;

"(2) require completion of the informal meeting process including notice of the reconsidered decision as required by subsection (5), within thirty days after notice of the original adverse decision;

"(3) provide for the direct involvement in the informal meeting(s) of the original decision maker and, where that decision maker is the agency's county supervisor, with an agency district director;

"(4) allow for a waiver of informal meeting(s) when the agency determines, and the applicant agrees, that a meeting would likely not avoid a formal appeal under subsection (c);

"(5) provide for written notice informing the applicant of any reconsidered decision; when the reconsidered decision remains adverse to the applicant the notice will include all reasons for the decision and will become the record of the agency's decision replacing the written notice required by subsection (a) for any subsequent formal appeal. In the case of a waiver the agency shall notify borrowers of the formal hearing under subsection (d)."

Comment: (1) This proposed subsection adopts the current regulatory requirement that the applicant or borrower meet with agency staff informally before pursuing a formal appeal. 7 C.F.R. §1900.55(c). The agency would have discretion on how best to implement this subsection, subject to provision (1)-(5).

(2) Agreements between a borrower and FmHA are complicated, and disputes may involve farming and marketing details which are best decided locally and informally. This proposal recognized the importance of informal meetings as a way to resolve as many differences as possible between borrowers and FmHA. Knowing that the next step in the appeal system is a formal appeal before an independent hearing officer should serve as an incentive for both parties to make the best use of these informal meetings.

(3) Subsection (b)(3) requires the involvement of the district director. Under this proposal, the district director would be working as the supervisor of the local decision maker trying to reach a reasoned decision, not as a hearing officer passing public judgment on a subordinate as is the case under the current regulatory appeal system.

"(d) *Formal hearing.* After meeting(s) pursuant to subsection (b), and where the agency's decision remains adverse to the borrower or applicant, the borrower or applicant may request a hearing before a hearing officer appointed under section 3105 of the Administrative Procedure Act by filing a complaint with the agency within twenty days of the notice of the decision made pursuant to subsection (c)(5). FmHA may submit an answer to the complaint.

"(1) The hearing shall take place within thirty days of the appellant's complaint, and the hearing officer shall decide all questions of fact and law and shall uphold, reverse, or modify the agency's reconsidered decision. Evidence may include applicant's complaint, agency's answer, notice of any reconsidered decision, and testimony by agency officials, applicant and relevant experts, except that affadavits by officials, applicant and experts may be substituted for direct testimony when agreed by the parties or allowed by the hearing officer.

"(2) Within ten days of the hearing both parties shall be given written notice of the decision, setting forth all findings of fact and reasons for the decision. Hearings shall be tape recorded and a transcript made available at cost upon request of either party. The decision of the hearing officer shall be final unless appealed pursuant to subsection (e).

"(3) Hearings under this subsection shall be held at an agency office in the state of the applicant's residence or farmland or at a neighboring agency office where that office is no further than five hundred miles from the applicant's residence or farmland.

"(4) All decisions of the hearing officer under this section shall be reported and made available to the public. Such reports all include any subsequent aaction taken by the Secretary pursuant to subsection (e)."

Comment: (1) This section is the most significant change in the proposed appeal process. The section requires that FmHA use independent administrative law judges (ALJ) appointed under the Administrative Procedures Act. The ALJs will conduct *de novo* reviews of the decisions made by the county committee, county supervisor, or district director. Their decision to modify, reverse, or uphold the action will be final unless modified or reversed by the Secretary [see (e) below]. Currently, the Department of Agriculture uses ALJs for actions brought under other selected USDA laws. For instance, administrative appeal proceedings under the Packers and Stockyards Act, the Federal Meat Inspection Act and the United States Grain Standards Act are handled by ALJs within the Secretary's Office of Administrative Law Judges. In implementing this proposed subsection, FmHA will be able to adopt the system already in place for their own appeal process. Current regulations setting forth the Department's appeal system are found at 7 C.F.R. 1.131. Where these regulations do not conflict with the proposed new subsection they can be used as a model for implementing the new FmHA appeal procedure.

(2) The number of appeal cases which will go to the formal hearing stage is difficult to estimate. A strong informal meeting process as authorized by subsection (c),

the desire to avoid the formal hearing stage, and an improved reporting system that allows reference to how similar disputes were decided should combine to reduce the need for formal appeals considerably.

(3) The sentence dealing with evidence does not require the attendance of agency officials, the applicant or experts when the parties agree or the hearing officer decides that affidavits will suffice.

(4) Proposed subsection (d)(3) requires the Secretary to decentralize the current USDA ALJ corps to serve aggrieved applicants within 500 miles of the appellant's residence or farmland. It does not require that there be permanent ALJ offices in any state. Nor does it require that there be ALJ visits to every state office since applicants of many states could be served by ALJs from neighboring offices that were within the 500 mile radius. Rather it leaves it up to FmHA discretion to develop a system of ALJ circuits that can adequately serve aggrieved applicants within the time and geographic limits. Five hundred miles is an arbitrary figure: the point is to balance the applicant's travelling hardship against administrative cost.

"(e) *Review by the Secretary.* If either party is aggrieved by the hearing officer's decision the appellant may request a review of the decision within ten days of the hearing officer's decision. Such decision shall be reviewed by the Secretary or person designated, who shall make a determination on the record from the formal hearing whether to modify, uphold or reverse the decision of the hearing officer. Such review and notification of the Secretary's decision shall be made within twenty days of the request for review. Such decision shall be the final administrative determination subject to judicial review.

Comment: Proposed section (e) provides for a review by the Secretary or a designate of the administrative law judge's decision. In the appeal procedure outlined in 7 C.F.R. 1.131 mentioned above this review is made by the "judicial officer." The review by the Secretary or person designated will be on the record only. No further pleadings or arguments may be made.

STATEMENT OF THE WATER QUALITY ASSOCIATION

The Water Quality Association (WQA) is a not-for-profit international trade association representing 1,400 firms and individuals engaged in the manufacture, wholesale and retail distribution of water treatment equipment which, at the point of use, improves both raw and municipally-treated water in the precise quantity and to that particular quality required for only specific or general use, whether in homes, in institutions, in commercial establishments, or in all varieties of manufacturing and other industrial occupations. This treatment service is provided by this Industry anywhere from a single faucet to a small community, and throughout the entire range in between.

WQA's statement "for the record" relates to the single issue of government-financed competition with private enterprise, namely the Farmers Home Administration's (FmHA) Water and Wastewater Grant and Loan Program. FmHA funds this competition with private enterprise, and it does so at low rates and for long terms. At present, nearly all FmHA support and financing goes to "long pipe" central water systems, without consideration or evaluation of alternatives, specifically individual wells and point-of-use water treatment, even though the alternatives are often more cost-effective. The effects on WQA's members are not only harmful to these small American businesses, but injure the public as well through the process of displacing utilization of technology which is an alternative water treatment method more preferable in a great many cases to the government-funded central treatment and long line distribution method.

In 1981, WQA obtained some rather revealing and impressive figures to document the seriousness of this issue and its cost to the government (Attachment A). This practice amounts to a budget deficit aggravation through provision of direct subsidy. The figures clearly illustrate this fact. In these times of budget consciousness, when Congress is looking for ways to lower the Federal deficit, Congress should require FmHA to consider all feasible alternatives and grant money to cluster or individual systems where these are most cost-effective.

The Point-of-Use Water Treatment Industry has the technology, products and people to provide quality drinking water. This technology is particularly useful in the smaller rural communities of America, which usually have an extremely serious cost problem in meeting the national drinking water standards. Therefore, with the utilization of point-of-use equipment, more rural Americans will be served quality drinking water, for the least amount of cost.

For example, Suffolk County, Long Island is faced with severe water quality and quantity problems. This area is completely dependent upon groundwater for potable water supplies. Private wells have been contaminated by pesticides and nitrates. In 1983, an engineering consulting firm completed a study of the area and concluded that "a combination of residential public water systems and individual treatment units is essential. Furthermore, in many cases, the utilization of individual home treatment systems was clearly the most cost-effective alternative since the cost of installing distribution piping in existing communities was prohibitive." Suffolk County's problem is being answered by the Point-of-Use Treatment Industry.

WQA strongly believes that the time is overdue for some provision to be made requiring FmHA to investigate, study, and seriously consider benefits in relation to costs; to act so as to maximize efficiency; to explore the existence and utility of all available alternative approaches to its objectives; and to adopt the one producing the maximum benefit and minimum cost to society. Our industry has the developed technology and the products ready to service these needs, as evidenced in Suffolk County.

In conclusion, WQA supports the following provision (as stated in S.765, introduced by Senator Hawkins, 98th Congress, 1st Session):

"The Secretary of Agriculture shall conduct a study of the practicality and cost-effectiveness of providing individual onsite water and waste treatment systems in rural areas rather than central or community systems.

No later than one hundred and twenty days after the date of enactment of this Act, the Secretary shall submit a report on the results of the study to the House Committee on Agriculture, Nutrition and Forestry."

The Water Quality Association looks forward to working with the Senate Agriculture Committee regarding the inclusion of the above cost-feasibility provision.

These figures, arranged in tabular form, relate to the rural water districts in the single state of Iowa, are as follows.

The first vertical column identifies those rural water districts in Iowa, categorized by organization. The third, fourth, and fifth vertical columns indicate the amount of Federal funding involved, broken down by loans and grants per rural water district. The sixth shows the number of users per district, and the eighth the amounts of loans per user. The last vertical column indicates the Federal Subsidy per user per year based on the difference, at the time of the figures' compilation, between the cost per user per year at the amount of interest charged for the loan by the Farmers Home Administration as compared to the 17% then charged by the open market.

In other words, the Federal Government is not only competing directly with private industry by displacing the small businessman, but is doing so at rates far below the market and at prices and terms which no one else can even consider.

This practice, furthermore, amounts to a budget deficit aggravation through provision of direct subsidy. The figures clearly illustrate this fact.

In the first horizontal column, for instance, the difference between the 17% market rate for interest on the $4,841 loan and the Farmers Home Administration rate is $580 per user per year. Multiplied by the number of users in that particular district, the Federal Subsidy for that single district in Iowa alone is $471,540 per year.

Over the 40-year customary life of such loans, this amounts to almost $19 million. For the 813 users, it totals $23,000 per individual user.

And this example, significantly, only relates to one state—Iowa. It includes only 813 people in the single district. There are other districts—many others. The last horizontal column, for instance, would compute to more than twice the cost, as over 2,000 users are involved in this district. There are, in addition, many other states as well.

LOANS AND PREAPPLICATIONS/APPLICATIONS 9-2-81

NAME	ESTIMATED AMOUNT TO BE FUNDED	FmHA AMOUNT FUNDED	LOAN	GRANT	NUMBER OF USERS	AVERAGE GRANT/ USER	AVERAGE LOAN/ USER	ANNUAL INTEREST SUBSIDY/USER @17% MONEY COST
Rural Water System #1 Hospers, Iowa	$	$ 4,140,200	$ 3,936,000	$ 204,200	813	$ 250	$4841	$ 580
Lyon & Sioux Rural Water System, Inc. George, Iowa		5,471,100	5,267,500	203,600	911	223	5782	694
Cherokee County Rural Water District No. 1 Cherokee, Iowa		7,320,000	5,742,800	1,576,200	900	1751	6380	765
West Central Iowa Rural Water Association Manning, Iowa		7,175,800	6,746,800	429,000	1200	357	5622	675
Rathbun Regional Water Association (Including Wayne, Monroe, Lucas, Appanoose, Davis), Centerville, Iowa		28,652,300	26,395,300	2,257,000	6400	352	4124	495
Napello Rural Water Association Ottumwa, Iowa	704,000	4,361,800	4,315,000	46,800	1543	30	2796	335
Clarke Rural Water District No. 1 Osceola, Iowa		174,000	174,000		77		2260	271
Clearfield Rural Water District, Inc. Clearfield, Iowa		170,000	201,500	91,750	52	1764	3875	465
Shelby County Water District No. 1 Harlan, Iowa		3,380,600	2,477,800	902,800	450	2006	5506	660
Page I Rural Water Association Shenandoah, Iowa		6,199,400	4,553,000	1,646,400	1100	1497	4139	497
Mahaska Rural Water System, Inc. Oskaloosa, Iowa		6,440,400	4,443,400	1,997,000	960	2080	4629	555
Berwick Water District Berwick, Iowa		702,000	360,000	342,000	175	1954	2057	247
Osceola County Rural Water Association Sibley, Iowa		20,200,000	20,000,000	200,000	2200	91	9091	1091

LOANS AND PREAPPLICATIONS/APPLICATIONS 9-2-81 (Continued)

NAME	ESTIMATED AMOUNT TO BE FUNDED	FmHA AMOUNT FUNDED	LOAN	GRANT	NUMBER OF USERS	AVERAGE GRANT/ USER	AVERAGE LOAN/ USER	ANNUAL INTEREST SUBSIDY/USER @17% MONEY COST
Clay County Rural Water Association Spencer, Iowa	$	$ 9,150,000	$ 8,150,000	$1,000,000	945	$1058	$8624	$1035
Southern Sioux Rural Water Association Ireton, Iowa		6,218,000	5,718,000	500,000	641	780	8078	969
East Dickinson County Rural Water Assn. Spirit Lake, Iowa WITHDRAWN	5,000,000				626			
Marion County Rural Water Association Knoxville, Iowa		5,330,000	5,130,000	200,000	750	267	6840	821
Warren County Rural Water Association Indianola, Iowa	4,800,000			—	800			
Jasper County Rural Water Association Newton, Iowa		12,449,000	10,449,000	2,000,000	2071	966	5045	605
Poweshiek County Rural Water Association Montezuma, Iowa	9,700,000				1205			
Van Buren County Rural Water Association Keosauqua, Iowa NOT FEASIBLE	676,000			—	200			
Xenia Rural Water Association Woodward, Iowa		3,200,000	3,200,000	—	800		4000	480
Southern Iowa Rural Water Association		1,475,000						
1. Grand River Source Area								
2. Lake Icaria Source Area	4,500,000		1,200,000	275,000				
3. Little River Source Area	8,300,000							
4. Honey Creek Source Area	3,000,000							
5. White Breast Source Area	3,500,000							
Southeast Polk Rural Water District Des Moines, Iowa	2,000,000							
Story County Water Association Nevada, Iowa INACTIVE	9,000,000			—	1450			

APRIL 25 HEARING—GENERAL AGRICULTURAL ISSUES

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, the array of individuals and organizations represented by the witnesses scheduled to testify today is indicative of how important the 1985 Farm Bill is to every American.

Everyone of us has a stake in this legislation—not only because we all enjoy the abundance of food produced by our farmers but also because agriculture is our Nation's number one industry and largest employer.

As a Nation, we depend on agricultural exports as the biggest positive factor in our balance of trade.

Historically, American farmers have been among the most efficient producers in our economy. Today, each farmer feeds over 80 people and American consumers spend only about 14 cents of each dollar of disposable income on food.

Despite the productivity of our family farms and the Nation's dependence on them, many family farmers are confronting a devastating financial crisis. The causes and effects of this crisis have been well documented and the 1985 farm bill is the most appropriate means of developing equitable and workable solutions.

This most important farm legislation will influence the entire economy for many years to come and could be the determining factor in efforts to preserve our family farm system of agriculture. For that reason, it is fitting that so many of today's witnesses share our concern about the future of agriculture even though they are not directly involved in agricultural production.

I look forward to reviewing the testimony of today's witnesses

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STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, as we approach the end of a series of scheduled hearings on the 1985 farm bill, I would like to thank all the individuals and farm organizations that have given the members of this committee the benefit of their counsel.

The time put into preparing their extensive presentations is greatly appreciated. Their assistance will be valuable as we move towards writing the 1985 farm bill. Thank you, Mr. Chairman.

[The following outline paper was submitted by Senator Glenn. See p. 414 for oral reference:]

APPENDIX A: FISCAL YEAR EXPENDITURES, FISCAL YEAR 1986 TO FISCAL YEAR 1990

AGRICULTURAL COMMODITY USES RESEARCH ACT OF 1985

Fiscal year 1986

(1) Competitive Grants, Cooperative State Research Service: $3,000,000.

For institutes of higher learning. Every $2 of federal funds must be matched by $1 of self generated funds.

(2) Competitive Grants, Cooperative State Research Service: $400,000.

For commodity and general farm organizations. USDA would select projects to be funded under this grant from those submitted by agricultural organizations, which must match federal funds at a one-to-one ratio.

(3) Agricultural Research Service: $3,000,000.

These funds would be additions to current research into non-food uses at various regional research centers.

(4) Special Research Grant, Cooperative State Research Service: $150,000.

For The Ohio State University to establish an institute to study the economics of developing and marketing non-food products derived from food products. Funds to be matched at a one-to-one ratio.

OUTLAYS FISCAL YEAR 1986

Total Federal Cost—$6.55 million.

Total Resource Commitment—$8.60 million.

Half of Federal funds would come from a redistribution of existing research funds and half from new funds.

Total New Federal Funds = $3.32 million.

Fiscal year 1987

(1) Excluding OSU item, funds for each item would be doubled.

(2) Matching fund requirements would remain same.

OUTLAYS FISCAL YEAR 1987

Total Federal Cost—$12.95 million.
Total Resource Commitment—$16.90 million.
Half of increase over FY85 would be a redistribution of existing research funds and half would be new funds.
Total New Federal Funds = $3.2 million.

Fiscal year 1988

(1) Excluding OUS item, funds for each item would be doubled.
(2) Matching fund requirement would remain the same.

OUTLAYS FISCAL YEAR 1988

Total Federal Cost—$25.75 million.
Total Resource Commitment—$33.50 million.
Half of increase over FY87 would be a redistribution of existing research funds and half would be new funds.
Total New Federal Funds = $6.40 million.

Fiscal year 1989

(1) Funding for all items would be increased by 4 percent to account for projected increased in inflation.
(2) Matching fund requirements would remain the same.

OUTLAYS FISCAL YEAR 1989

Total Federal Cost—$26.78 million.
Total Resource Commitment—$34.84 million.
Half of increase over fiscal year 1988 would be a redistribution of existing research funds and half would be new funds.
Total new Federal funds = $0.51 million.

Fiscal year 1990

(1) All federal funds would be increased by 4 percent to account for projected inflation.
(2) Matching fund requirements would remain the same.

OUTLAYS FISCAL YEAR 1990

Total Federal Cost—27.86 million.
Total Resource Commitment—$36.25 million.
Half of increase over fiscal year 1989 would be a redistribution of existing research funds and half would be new funds.
Total New Federal Funds = $0.54 million.

COST SUMMARY: AGRICULTURAL DEMAND DIVERSIFICATION ACT OF 1985

[Dollars in millions]

	Fiscal year—					Total
	1986	1987	1988	1989	1990	
FEDERAL FUNDS						
Item:						
Academia	3.00	6.00	12.00	12.48	12.98	46.46
Agricultural Organizations	0.40	0.80	1.60	1.66	1.73	6.19
Agricultural Research Service	3.00	6.00	12.00	12.48	12.98	46.46
Ohio State	0.15	0.15	0.15	0.16	0.17	0.78
Total	6.55	12.95	25.75	26.78	27.86	99.89
TOTAL RESOURCE COMMITMENT						
Item:						
Academia	4.50	9.00	18.00	18.72	19.47	69.69
Agricultural Organizations	0.80	1.60	3.20	3.32	3.46	12.38

COST SUMMARY: AGRICULTURAL DEMAND DIVERSIFICATION ACT OF 1985—Continued

[Dollars in millions]

	Fiscal year—					Total
	1986	1987	1988	1989	1990	
Agricultural Research Service	3.00	6.00	12.00	12.48	12.98	46.46
Ohio State	0.30	0.30	0.30	0.32	0.34	1.56
Total	8.60	16.90	33.50	34.84	36.25	130.09

STATEMENT OF HON. MACK MATTINGLY, A U.S. SENATOR FROM GEORGIA

Thank you, Mr. Chairman for this opportunity to appear before the committee today to briefly discuss a proposal which I intend to introduce in the Senate and which I would like for this committee to consider including in the 1985 farm bill legislation which you will be marking up in the near future.

I could sit here today and recite the well-known statistics about the current distressed economic situation which faces many of our agricultural producers in America, but that would only repeat what each of us already knows. In a recent news story, even Secretary Block admits that nearly five percent of our 2.3 million farmers cannot survive the present credit crisis in agriculture. He freely acknowledges that there is probably nothing short of a massive, vastly expensive bail-out which would help these earnest laborers who till the soil for the benefit of us all. Even without a $200.0 billion deficit such a rescue mission would not likely gain political approval or public acceptance.

Present farm programs have a wealth of detractors and the media would have us believe that farmers are nothing more than greedy, shiftless leeches on the Federal Treasury. Of course they fail to talk about the past mistakes in Government policy which have served to drive the costs of production sky-high with inflation pushing double-digit upper limits and interest rates in excess of twenty percent. Add to these factors other policies which openly encouraged expansion and production and them slammed shut the door on major export markets. Considering all these factors, exacerbated by speculative lending binges in the commercial credit markets, and one has to wonder that things aren't even worse than they actually are.

The administration now talks about making farm programs more "market oriented" they insist that such changes in farm policy would allow American produced commodities and products to move in export trade more freely to the financial gain of the farmer. But this myopic view totally ignores the fact that this country has failed formulate and implement a comprehensive, cohesive trade policy. We have failed to do those things necessary to ensure our own producers of the opportunity to take advantage of our inherent competitive advantage in agricultural production. For the past five years, Congress has been unable to summon the political courage necessary to forcefully address the predatory tactics of foreign competitors. We have been totally unwilling to say to our world trading partners that the day has come when their excessive production and export subsidies must end. We have waffled on the issue of demanding an end to their tariff and non-tariff barriers which prevent the free flow of American goods and products into their countries.

So, Mr. Chairman, I would urge this committee to consider not only the modest proposal which I offer to help the most severely affected members of our farm population, but I would also offer my sincere support of your efforts to strengthen the linkage between free and fair international trade rules and the orderly development of a long-term farm policy for this Nation's producers.

The "family farm homestead protection bill" which I urge you to consider is certainly not intended to solve any underlying problems facing American agriculture. Rather, it is a largely symbollic—but meaningful—indication of the esteem in which the Congress holds those who have devoted their time, talents and energies to feed and clothe their fellow countrymen and women, and indeed much of the world.

This legislation which I intend to introduce is designed to help ease the pain currently experienced by those farm producers who simply will not survive the present crisis. Much of the personal and community shock which results from farm failures could be eased if we provide the farmer and his family some time to readjust their lives. What I am suggesting today for your consideration is a plan which would allow a bona-fide family farmer to retain possession and occupancy of the family homeplace for a reasonable amount of time so that he can make the financial and economic adjustments necessary to carry on a normal lifestyle in what will most likely be a different occupation.

The legislation would provide that a farmer who had occupied the family homeplace for at least five years and who had actually depended on farming for a livelihood could retain possession of the "homestead" residence and up to ten acres of land for a period of five years following any bankruptcy, forecloseure or liquidation necessitated by his inability to pay farm indebtedness. During this grace period he would pay Farmers Home Administration or the Small Business Administration, as the case may be, a percentage not in excess of twenty percent of the family income as rent for the occupancy and use of the property. If, by the end of the fifth year, the family could show repayment ability then they would be allowed to redeem the family homestead residence and the small amount of adjacent acreage.

Mr. Chairman, this is such a reasonable approach to helping smooth the transition which some 120,000 farm producers will face if Secretary Block's estimates are correct. I think that we in Congress would be callous and cruel if we didn't at least offer some type of escape valve for those who have devoted their best efforts only to see hopes and dreams of a lifetime dashed upon the rocks of faulty Government policies and stranded upon the reefs of unfair foreign trade tactics. I would suggest that this is probably the least we should do for these who have given in good faith their productive talents to the benefit of our country.

I have asked Congressional Research Service and the Congressional Budget Office to prepare cost estimates for this measure. These are not yet in my possession. But let me suggest that there will be little if any cost to the Treasury as a result of this proposal. In all probability the properties we are talking about would bring only a very small fraction of their book value if placed on today's depressed farm real estate market under forced sale. If held for five years they will certainly not bring any less should the family be unable to redeem the homestead, and they might even bring more then due to stabilization and improved economic conditions in the agricultural sector. During the grace period the Government would be receiving payments in the form of rent which would further increase the Treasury's recovery of the original loan.

I have a great deal of confidence in the members of this committee and their knowledge about and concern for farm producers in this land. I simply urge your constructive consideration of this suggestion as you move toward your recommendations for the new farm bill. I would be pleased to work with you in any way possible to see this small flame of hope and opportunity be kept alive for those who have been unable to successfully pursue their life's calling and ambition working the land.

Thank you for your consideration.

A BILL To permit family farmers who have obtained loans made by the Farmers Home Administration or the Small Business Administration to occupy temporarily the principal residence and adjoining land pledged as collateral for such loans after foreclosure, bankruptcy, or voluntary liquidation

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Family Farm Homestead Protection Act of 1985".

DEFINITIONS

SEC. 2. As used in this Act:

(1) The term "Administrator" means the Administrator of the Small Business Administration.

(2) The term "farm program loan" means a loan made by the Administrator under the Small Business Act (15 U.S.C. 631 et seq.) for any of the purposes authorized for loans under subtitle A or B of the Consolidated Farm and Rural Development Act (7 U.S.C. 1922 et seq.).

(3) The term "homestead property" means the principal residence and adjoining property possessed and occupied by a borrower under section 3 or 6.

(4) The term "Secretary " means the Secretary of Agriculture.

HOMESTEAD PROTECTION

SEC. 3. (a) If the Secretary forecloses a loan made or insured under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.), the Administrator forecloses a farm program loan made under the Small Business Act (15 U.S.C. 631 et seq.), or the borrower of either such type of loan declares bankruptcy or goes into voluntary liquidation, the Secretary or Administrator (as the case may be) shall permit the borrower to retain possession and occupancy of any principal residence of the borrower, and no more than ten acres of adjoining land (including any farm buildings located thereon), pledged as collateral for such loan.

(b) The total value of homestead property may not exceed $200,000 as determined by an independent appraisal based on prices received for similiar property in the area in which the property is located during the six-month period preceding the date of the appraisal.

(c) The period of occupancy of homestead property may not exceed five years.

ELIGIBILITY

SEC. 4. (a) To be eligible to occupy homestead property, a borrower of a loan made or insured by the Secretary or the Administrator must—

(1) apply for such occupancy during the three-year period beginning on the date of the enactment of this Act;

(2) have exhausted all other remedies for the extension or restructuring of such loan;

(3) have made gross annual farm sales of at least $50,000, but no more than $400,000 during at least two years during the five-year period beginning on January 1, 1981, and ending on December 31, 1985 (or equivalent crop or fiscal years);

(4) have received from farming operations at least 60 percent of the gross annual income of the borrower and any spouse of the borrower during at least two years during such five-year period;

(5) have occupied the homestead property, and engaged in farming or ranching operations on adjoining land, during such five-year period;

(6) during the period of occupancy of the homestead property, pay rent for such property to the Secretary or the Administrator (as the case may be) in an amount determined by the Secretary or Administrator based on a percentage (not to exceed 20 percent) of the total income of all members of the family of the borrower residing on such property, as adjusted annually by the Secretary or Administrator to permit such members to maintain an adequate standard of living;

(7) during the period of occupancy of homestead property, maintain such property in good condition; and

(8) agree to such other terms and conditions as are prescribed by the Secretary or Administrator in order to facilitate the administration of this Act.

(b) For purpose of subsection (a)(4), the gross annual income of a borrower shall not include—

(1) unearned income of the borrower, not in excess of $1,500; and

(2) unearned income of any spouse of the borrower employed in non-farm operations, not in excess of $25,000.

CONSERVATION RESERVE PROGRAM

SEC. 5. (a) If the Secretary announces a set-aside program under which producers on a farm may set aside and devote to conservation uses cropland acreage for a period of not less than five years, an eligible producer occupying homestead property may enroll in such program acreage which—

(1) was owned by such producer before the foreclosure, bankruptcy, or voluntary liquidation referred to in section 3; and

(2) has not been conveyed by the Secretary or Administrator to another person.

(b) The total number of acres a producer may enroll in a set-aside program under this section may not exceed the lower of—

(1) 20 percent of the total amount of acreage described in subsection (a); or

(2) 100 acres.

(c) Except as provided in subsection (d)(2), if a producer enrolls acreage in a set-aside program under this section, any payments received under such program shall be applied to reduce the outstanding balance of indebtedness due on—

(1) the homestead property occupied by the producer; and

(2) if any payments remain after clause (1), acreage enrolled in such program.

(d)(1) Except as provided in paragraph (2), if a producer enrolls acreage in a set-aside program under this section, interest may not be charged or collected on any outstanding principle due on homestead property occupied by the producer, or on any acreage enrolled in such program, from the date of the foreclosure, bankruptcy, or voluntary liquidation referred to in section 3.

(2) If the total amount of payments received under such program and under any lease of such acreage exceeds the outstanding principle due on such property and acreage—

(A) interest shall be charged and collected on such outstanding principle; and

(B) any payments remaining after subsection (c)(1) shall be applied to repay such interest.

GUARANTEED LOANS

SEC. 6. (a) If a private lending institution forecloses a loan guaranteed under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) or a farm program loan guaranteed under the Small Business Act (15 U.S.C. 631 et seq.), or the borrower of either such type of loan declares bankruptcy or goes into voluntary liquidation, the Secretary or Administrator (as the case may be) shall approve an agreement between the institution and the borrower which would permit the borrower to retain possession and occupancy of any principal residence of the borrower, and no more than ten acres of adjoining land (including any farm buildings located thereon), pledged as collateral for such loan.

(b) To be eligible to receive a payment under subsection (c) such private lending institution must agree to—

(1) reduce the principle balance due on the homestead property of the borrower to not more than $200,000; and

(2) during the five-year period beginning on the date such agreement was entered into, to accept, in lieu of interest payments due on such loan, an amount of interest payments during a year determined by the Secretary or Administrator which does not exceed 20 percent of the total income of all members of the family of the borrower residing on such property.

(c) In return for such agreement by a private lending institution, during the five-year period beginning on the date such agreement was entered into, the Secretary or Administrator shall—

(1) pay such institution an annual service fee of 1.5 percent of the outstanding balance due on the homestead property; and

(2) guarantee the repayment of at least 70 percent of the total amount of principle and interest due on the guaranteed loan.

(d) Sections 3 (b) and (c) and 4 shall apply to this section.

STATEMENT OF JOSEPH GERACE, COMMISSIONER, NEW YORK STATE DEPARTMENT OF AGRICULTURE & MARKETS

I am Joseph Gerace, and I am Commissioner of the New York State Department of Agriculture and Markets.

Agriculture is one of New York's largest industries, with nearly $3 billion in annual farm receipts. New York has more than 48,000 farmers who farm on more than 9 million acres of land, and who produce an impressive variety of products.

Farm families own and operate 99 per cent of New York farms. Our farms employ about 100,000 people. The agriculture and food industries combined in New York are a $10 billion industry, employing 500,000 people. There is no community in the State of New York untouched by farming and the food industry.

Dairy farming is the sector of New York's agricultural industry most affected by the federal Farm Bill. New York ranks third in the nation in dairy farming. We produce 11.5 billion pounds of milk per year, with an annual farm value of $1.7 billion. In 1983, New York produced 8.3 per cent of the nation's milk. We are the leading dairy state in the Northeast. We produce 44 per cent of the region's milk, and surrounding states reach into New York for milk to supply their markets.

New York's agriculture is also diverse. We rank second in apple production, and as a consequence of our large dairy industry, third in veal. We are third in tart cherries and grapes. We are fifth in the production of fresh vegetables, and sixth in vegetables for processing. In field crops, we are important producers of roughage, corn for grain, and potatoes.

Our diversity is important to the economic stability of New York's agricultural economy. But it also means that federal farm policy, and the work of this committee, will have broad impact in New York.

This year is crucial. In New York, net farm income is half of what it was four years ago. Try to imagine, if you will, living on half of what you earned in 1981. I know conditions are more or less the same everywhere, and I see little improvement in 1985.

Now let me say something about the economic relationships between farmers, the agri-food industry, and rural communities. I think it's important to an understanding of the impact of federal farm legislation.

We did a study in a rural county in upstate New York that showed us how basic our agricultural economy is to our whole economy. Roughly one fifth of the firms in the county were food and agricultural businesses, providing about one fifth of the jobs and wages. This does not include the farms themselves, or the impact of farm business on lenders and insurance agencies.

If our family farms are damaged, think of the terrible effect. But if, by working together, we can build farm income, think of the powerful benefits for the whole community.

So as you consider this year's Farm Bill, I urge you to consider it not just as a bill for farmers, but as an economic development bill for each and every community within our nation.

Impact of the Federal Dairy Program on New York

Dairy farming is particularly important to New York. It accounts for about 60 percent of our farm income. Let me rehearse some of the trends in dairy farming. Nationally, there were about 3 million dairy farms in 1960. Today there are fewer than 300,000. In 1960, New York had about 42,000 dairy farms. Today there are about 15,000. Yet production per dairy farm has nearly tripled during the same period.

Fewer cows, fewer dairy farms, more milk. These are the major trends and it appears that they will continue. In fact, as new agricultural technologies appear on the commercial market, such as the use of bovine growth hormone, these trends may accelerate, with substantial and potentially devastating impact on small and mid-size farms.

These are the trends we ask this committee to bear in mind as it decides the 1985 farm bill.

The farm price of milk in New York has been flat to declining slightly since 1981. The Federal Order 2 blend price was $13.39 in 1981, and $13.03 in 1984. The actual price to farmers was lower, due to the fifty cent and one dollar assessments of 1983 and 1984. The estimate for 1985 declines to $12.79.

Meanwhile, the index of prices paid by farmers increased by 12 percent from January, 1981, to December, 1984. Higher farm costs and lower prices for milk have squeezed many dairy farmers nearly to the breaking point. Some may have obtained temporary relief from the Paid Diversion program; all have tightened their belts, most have increased efficiency; and some have stopped farming.

We estimate that, under the dairy diversion-assessment program of the 1983 Dairy and Tobacco Adjustment Act, New York dairy farmers paid $75 million in assessments and will have received $37 million in diversion payments. About $38 million flowed out of New York to pay dairy producers in other parts of the country to cut back their output.

During this time, the number of New York dairy farms declined by 400, and the Federal Order 2 Milk Market Administrator invoked the call provision to assure an adequate supply of fluid milk in our region.

CCC purchases for 1984 were 8.6 billion pounds milk equivalent, and cost $1.6 billion in FY 1984. National milk production declined 2.8 percent in 1984 from 1983. New York milk production declined nearly three percent during the same period, while California milk production increased 3.2 percent. The dairy diversion-assessment program obviously had an impact that differed significantly from region to region.

What's the outlook? Murky, I would say, and not good. Under the Reagan Administration dairy proposal, the support price would be cut in several steps, possibly to as low as $10.60 per hundredweight. There would be a move from support prices to target prices on October 1, 1987.

Now, let's go back a step. USDA estimates that total cash expenses may average about $10.73 per hundredweight for 1984, already well above the $10.48 target price for 1987. Moreover, a cash expense of $10.73 leaves no money for dairy farmers to live on. Farm expenses are unlikely to decline. Thus we can see that thousands of dairy farmers will go bankrupt long before the market price of milk drops to $10.48 or lower.

The Administration program will lead to a cycle of low prices, driving dairy farmers out of business, then to tighter milk supplies and rising prices, encouraging more production and driving prices down again. There would be fewer farms, larger farms, and I have to tell you, substantially increased hardship in our rural communities.

Dairy recommendations

I have some recommendations that differ from the Reagan Administrations:

The 1985 Farm Bill should provide for a long-term dairy price support program assuring dairy farm families of a stable price for milk even under adverse supply-demand conditions. CCC purchases should be continued but modified so that milk support price adjustments can avoid major CCC surplus purchases.

Supply-demand adjustments should automatically relate the support price level to the volume of government purchases, allowing the support price to decline when CCC purchases increase, and to increase when CCC purchases decline.

Dairy import quotas should be continued and consideration be given to including case in under the Section 22 quota.

Funding for the USDA Special Milk Program should be restored and continued. This program does two things and does them well. It provides nutritional benefit to needy children in schools and is an important outlet for substantial quantities of fluid milk.

Congress should require the Food and Drug Administration to revise their present standards for imitation cheese products. The present "nutritionally equivalent" standard is unfair to the natural cheese industry, deceives consumers, and has helped producers of imitation cheese gain a large part of the cheese market.

The producer-funded national dairy promotion program should be continued through a national referendum vote. We would like to see increased market development and product development programs for dairy products.

Agricultural trade

Now I want to turn to agricultural trade policy. We support aggressive market development programs to increase exports. I encourage this committee to advocate increased food aid programs under PL 480—Food For Peace—and for two purposes: humanitarian benefits to parts of the world not as fortunate in food production as the U.S. and to provide long-term agricultural market development for our farmers. A greater share of foreign assistance should be given in food.

Agricultural trade is critical to the U.S. farm industry and to our national balance of trade. We should encourage adoption of an agriculture trade policy that treats all commodities fairly.

The income of New York farmers has been hurt by imports of vegetables from our neighbor to the north, Canada, whose farmers benefit, not only from provincial government subsidies, but from U.S. policies resulting in an overvalued dollar. To give just one example, New York State unloads of Canadian potatoes increased 1400 percent from 1977 to 1982.

Our farmers need better means of addressing the problems of subsidized agricultural imports. The present anti-dumping petition process of the International Trade Commission is too costly and time-consuming for most farmers, particularly for many producers of the so-called minor commodities, onions or carrots, for example.

We would support legislation that provides financial and technical assistance to farmers seeking remedies for subsidized agricultural imports. We would also support a fast-track system for addressing agricultural trade problems.

Agricultural research and development

Agricultural research and development has made dramatic changes in farming. I think it's fair to say that there have been more changes in farming in the last fifty years than in the previous 500. We need to be sure the results of agricultural R&D are equitably available to all farmers, regardless of the size of their farms.

I'm thinking specifically again of the bovine growth hormone that may result in a 30 percent increase in milk production with a corresponding decline in the number of cows needed. There are other examples. The risk is that the commercial benefits of such research will be available only to the larger, richer operations, thus unfairly squeezing out the smaller operations and leading to concentrated farm ownership.

Increased efforts must be made to help small and mid-sized farms adopt new technologies before it's too late. And USDA programs should be refocused to help young farm families maintain efficient and profitable farm operations.

Soil and water conservation

Some of the most serious problems with the Reagan Administration farm program lie in the cuts in soil conservation programs. Yet it is precisely here that we need to care most for the future. Soil and water conservation funding and programs must be on a long-term basis, and integrated with federal price support programs through "sod-buster" legislation to discourage production on land vulnerable to erosion and depletion.

Ground water and surface water levels are a major problem in many states. The depletion or pollution of these resources is not the answer to the need for increased or more efficient food production. Our soil and water conservation programs need to be strengthened to confront new environmental problems that threaten water resources and limit potential agricultural production, and to give farmers help with old problems such as drainage in Northeastern soils.

Congress should work with the states to fund an aggressive integrated pest management program involving new biological and cultural practices to allow the farmer to reduce the amount of pesticides used in agricultural production.

Federal tax and budget policies

We are deeply concerned about the Reagan Administration proposal to eliminate the deductibility of state and local taxes from federal income tax. This would leave fewer dollars in New York and other states for the development of agriculture, and for enabling farmers and agri-businesses to compete in national and world markets.

Many people, a growing number, believe that federal tax policy has encouraged the concentration of farm ownership, the incorporation of farms, and shelters for off-farm income through farm losses. Again, it is the mid-size family farm that is most threatened by such trends, and it is precisely these farms that anchor many of our rural communities.

In September, 1984, the National Association of State Departments of Agriculture recommended that Congress appoint a joint select committee to study the impact of federal tax policy on the structure of American agriculture. I support this recommendation.

Agriculture is vulnerable to international economic events and national economic policy. Record federal budget deficits have given farmers dramatically increased interest payments and an overvalued dollar that have reduced agricultural exports and increased agricultural imports. Farm income will not return to reasonable levels for all farmers until the federal deficit is reduced and interest rates decline.

Long-term farm policy

Long-term farm policy is critical to allow our farmers and agri-businesses to plan for the future. The time has come to end our short-term approach to national farm policy. There is no community, no household, no individual in the United States that is untouched by the economics of farming and food production. And there is no community in the world that is not touched by American agricultural policy.

I urge the Senate to consider, with the House, the creation of a commission to investigate and recommend a long-term agricultural policy for the United States.

In New York, we have just released a major study of New York agriculture, entitled New York Agriculture 2000, as a first step in our own long-range planning, and I know other states are also engaged in similar planning.

We must have a long-term approach, not only for our own security, but for the stability and peace of the world. The American public now recognizes, more than ever, the role of agriculture in our national life. This is a good time, and a good season, to make a fresh start.

Thank you.

STATEMENT OF CARROLL BRUNTHAVER AND DANIEL HUBER, REPRESENTING NATIONAL GRAIN & FEED ASSOCIATION

Mr. Chairman and Members of the Committee, my name is Carroll Brunthaver. I am Vice President of Sparks Commodities, Memphis, Tennessee. With me today is Daniel Huber, President of the Commodity Marketing Division of Cargill, Inc. We are presenting testimony jointly on behalf of the National Grain and Feed Association.

The National Grain and Feed Association is a voluntary association of grain and feed firms. The operations of our 1,250 members include country elevators, terminal elevators, processors and exporters. There are 48 state and regional grain and feed associations affiliated with the National Grain and Feed Association that represent upwards of 10,000 grain and feed companies nationwide. Our members provide the marketing system needed to distribute our country's abundant agricultural production from producers to both domestic and foreign consumers.

We appreciate the opportunity to appear before you today to present our Association's view on an issue that we consider to be most important and timely. Indeed 1985 farm legislation will play a significant role in the future of everyone involved in U.S. agriculture.

During the 1970's, domestic food and fiber demand matured and leveled off just as export demand entered a decade of sustained growth. As a result, U.S. agriculture became dependent for its future growth and profitability on a world food and fiber economy.

That economy is dynamic. It is both highly sensitive to U.S. agricultural policy and a major reason why U.S. policy must become more flexible.

Today's world food economy is an intensely competitive environment, as the chart on page 3 illustrates, showing the line-up of "free-on-board" export prices from various origins. These prices are for comparable commodities from different origins, and demonstrate in a very literal sense how far we are out of the market. If the U.S. is really competitive, the price spread between U.S. and foreign origins should be quite narrow. As it is, we are out of the market, especially in wheat, by a wide margin. The United States is currently handicapped in this competitive marketplace by loan programs that set a floor under U.S. export prices above prices at which many competitors can and will sell.

As a result, world grain trade has stagnated since 1980. Self-sufficiency has increased in a number of key markets, and U.S. exports and market share have fallen sharply. U.S. grain exports rose 250 percent during the 1970s but have fallen 15 percent since 1980. U.S. export market share—which jumped from 40 to 60 percent in the 1970s—has fallen below 50 percent since 1980. And we probably have not seen the worst. We think it is very likely that total exports of wheat, corn and soybeans for 1985-86 will drop below the 4 billion bushel level, the lowest level in 10 years and, potentially 25 percent under the peak of 1979-80.

WORLD GRAIN PRICE LINE-UP—JANUARY 11, 1985

[U.S. dollars/mt]

Wheat:	
SRW loan	$135
AUST Feed	95
Plate	108
United Kingdom	115
French mill	122
Yugoslavia	125
Bulgaria	125
Sweden	125
CAN white	133
AUST mill	135
U.S. white	139
U.S. SRW	147
U.S. HRW	151
U.S. HRS	157
Corn:	
Corn loan	120
PRC	109
Plate	109
Thailand	112
United States	120
Sorghum:	
Sorghum loan	114
Plate	90
Thailand	95
Aussie	108
United States	116
Barley:	
Barley loan	121
New Zealand	93
Finland	102
Aussie	104
United Kingdom	106
Sweden	109
French	110
United States	124

WORLD GRAIN PRICE LINE-UP—JANUARY 11, 1985—Continued

[U.S. dollars/mt]

Soybeans:	
Soybean loan	209
Plate	206
Brazil	230
United States	230

LOANS ARE FOB GULF EQUIVALENT

There is a tendency to place the blame for this market reversal on factors unrelated to U.S. farm policy. Typically, the leading candidates for blame are the "strong dollar" and "unfair foreign trade practices." Both contributed to American agriculture's declining competitiveness.

However, the shifts in world grain markets have been too broad and fundamental to be explained merely by subsidized competition. And it would be a serious mistake to assume that the dollar is likely to decline soon or that a return to a "more correct value" will fully restore U.S. competitiveness.

One of the major causes of stagnant world grain markets since 1980 has been declining foreign purchasing power. The world slipped into a deep, prolonged recession in 1980 from which it is only now slowly emerging. The effect of recession on food imports was made more pronounced by a simultaneous shift from the easy credit environment of the 1970s to the international credit crunch and debtor crisis of the 1980s.

This failing purchasing power drove world grain consumption below its long-term trend. At the same time, the percentage of world grain use met by imports—which rose during most of the 1970s—fell significantly. Weak economies and lack of money, in other words, led to a shift toward higher grain self-sufficiency in many key markets.

A more complex change was ushered in by a combination of U.S. loan policies and a rising dollar.

The loan level in terms of U.S. dollars trended down until 1976 and then jumped to a higher plateau. This mid-1970's increase in real price-support levels did not discourage export demand initially because the dollar declined against major foreign currencies until 1980. When the dollar began rising in value, U.S. price support levels expressed in foreign currencies rose sharply. This had the effect of raising world minimum prices and increasing the profitability of foreign agricultural production.

Most countries grow wheat, while only a few grow corn. Rising world prices, therefore, stimulated wheat production more than corn and other feed grains. World wheat production is up 17 percent since 1980, compared to only 7 percent for feed grains. This, in turn, boosted wheat use for feed at the expense of corn.

This complex chain of events has shifted world grain production, use and trade patterns in favor of wheat. Because the United States' comparative advantage is greatest in corn production, this shift has advanced its competitors' interests compared to those American producers. World wheat trade has risen at the expense of corn and soybean trade, and competitors' exports have grown at the expense of U.S. exports.

This shifting pattern of world grain use and trade has been particularly helpful to certain competitors—especially the European Community (EC). EC grain imports—principally feed grains—have fallen dramatically, while EC grain exports—principally wheat—have soared. Over the past decade, the EC's net grain trade has changed nearly 40 million tons (from roughly 20 million tons net imports to 20 million tons net exports), which is equivalent to one-fifth of total world grain trade.

The EC's aggressive use of export subsidies has enabled it to penetrate export markets successfully. But its competitive effect on U.S. agriculture really started with its dramatic increase in wheat production, which was accommodated by rising U.S. price-support levels and a strengthening dollar.

The Community's success is fragile. The budgetary cost has proved burdensome even in a period when the spread between EC and world grain prices—expressed in Eurpoean currencies—has been narrowing. The bloated EC budget for its Common Agricultural Policy, therefore, is highly vulnerable to a drop in world minimum prices.

The EC treasury no longer gains much revenue from variable import levies. But as a growing grain exporter, it pays out more and more in export subsidies. A suddenly wider gap between EC and world prices would be very disruptive. Artificially high, inflexible U.S. price support loans, however, so far have insulated the Community from this risk.

Other competing exporters by and large do not depend on export subsidies. Still, they also have expanded under an umbrella of incentives held out by U.S. farm policies. These countries typically have been producing and exporting at the upper limits of their physical capacities. For them, increased exports require capital investments to increase acreage, to intensify cultivation practices and to build transportation and handling systems for moving additional agricultural production.

To make such investments, they need assurances that their downside risks have been minimized. Ironically, this is precisely what U.S. loan, reserve and supply management policies have given them. U.S. non-recourse loans have set minimum prices that have been downwardly inflexible. Unlimited reserve entry periodically has moved U.S. grain surpluses off the market, neutralizing these stocks as a competitive factor until high, clearly visible release prices have been reached. And voluntary acreage-reduction programs have cut U.S. planted acres as others have expanded their production.

Taken together, these policies have provided competing exporters the opportunity and the incentive to expand at U.S. expense. That is what they have been doing aggressively since 1980.

U.S. grain exports—down 15 percent since then—would actually have fallen further except for two factors. One is the physical capacity constraints that U.S. competitors have been striving to overcome as rapidly as possible. The other is the unusual strength of Soviet grain import demand in recent years.

Grain imports by the Soviets have risen from virtually zero in 1970 to 25 percent of total world grain trade this year. If Soviet imports were 35 million tons rather than this year's 50 million tons, U.S. grain exports probably would have fallen below 4 billion bushels during 1984-85 (compared with a peak of 5.1 billion bushels in 1980-81). Even if strong Soviet demand continues, the accumulated effect of other factors likely will drive exports below 4 billion bushels next year.

In spite of these problems, there are still opportunities for growth in U.S. grain exports. That is important, because exports are the only sizable growth market for U.S. agriculture. Domestic grain use has fluctuated somewhat since 1970 but has not grown significantly. U.S. agriculture's rising production potential must find markets overseas.

Currently, the United States clearly has surplus production capacity. It also has a 50-percent surplus in its export-handling capacity. This means that the United States can respond more quickly and at less expense than its competitors to any significant increase in import demand. The policy challenge is to stimulate expanded demand while cushioning the burdens on farm incomes during the transition to a market-led recovery.

Restoring export growth and prosperity to U.S. agriculture

For fifty years, we have operated under the same kind of farm programs. For fifty years we have had variations of loan rate programs, income support payments and land diversion. In 1985, we find ourselves continuing our struggle to make these outdated programs work in a totally different environment. We are in a new ball game and the old rules do not fit.

The international system of fiscal exchange rates went by the wayside in the early 1970s. Many foreign nations have become highly efficient food producers. Many others are striving for self-sufficiency. These developments and the new openness of the world economy have made our policies of rigid farm programs obsolete. Our loan rates no longer just guarantee prices to American farmers, they now guarantee prices to the world. And at today's exchange rates, those price guarantees to foreign competitors are very attractive. Our acreage reduction programs do not raise U.S. prices anymore. U.S. acreage reduction programs invite our export competitors to increase plantings to supply markets that we voluntarily give up by diverting land.

To continue these policies or make domestic changes in our farm programs would be irresponsible. If we fail to make substantive and constructive changes in programs that are fundamental causes of declining exports and farm income, the American farmer will be the loser. Neither can these changes be gradual. Such delay tactics will only cause greater losses in markets and prolong the economic pain.

A farm program for recovery

Regardless of what farm policy decisions are made in 1985, we believe U.S. agriculture faces difficult economic times ahead for at least the next two years. We believe this is true because of two basic facts. First, it will take some time for markets to recover. Even if we immediately stopped giving export competitors price guarantees, these countries have their agricultural sectors in high gear. It will take time before we see foreign production responding to U.S. policy actions. Secondly, we know that federal budgets for agriculture are not unlimited. If they were, the short term income pressures of producers could be completely eliminated by income support measures.

Because of these constraints, we firmly believe that the difficult economic times in the short term cannot be avoided, regardless of government farm policy decisions. However, we also believe that with the correct policy prescription in 1985, U.S. agriculture can begin the recovery process.

What we need in 1985 legislation is a program that can make the needed adjustments in agriculture as quickly as possible. With the right policy, economic recovery can begin in two or three years. If we delay or devise the wrong programs, recovery will only be delayed to 5 years or more. We need a program that makes the best use of government monies that are available to support farmer incomes through the necessary adjustments. Finally, and very importantly, we need a program that is fair to producers. The next farm bill should be out front with producers. They need to know at the outset that Congress does not have a limitless budget to use to buy back instant farm prosperity. Producers deserve to know as early as possible what kind of income support will be available from government in the next few years. We think that the right farm policy for 1985, and the one that is most acceptable to farmers, is one that offers the best hope of recovery in the shortest time frame and a program that lets the farmer know how much government support he can expect in the next few years so that he can plan efficiently.

The most important change in farm policy that must be made in 1985 is the swift elimination of programs that artificially support prices and hold U.S. grain off the market, both of which seriously impede our ability to compete. There are several parts to this kind of policy adjustment. It encompasses loan rate policy, land diversion and reserves.

Loan rate policy

Loan rates must be related to the market and to make the U.S. competitive again in export markets, the adjustment in loan levels should be done as rapidly as possible. Based upon current world price levels, loans set at 70 percent of the average of the previous three-year market prices would do the most to lead to rapid recovery in export markets.

To make loan rates truly market oriented, recourse loans would be preferable to non-recourse. However, if non-recourse loans are continued, the government should change its policy on interest repayment. Interest should be charged on commodities forfeited to the government. If loans are paid back, interest should be forgiven. This policy change would eliminate the artificial escalation in support levels caused by interest accumulation that results in greater forfeitures to CCC.

Some people think that lower price support guarantees mean lower prices. We would take issue with this. Dropping the loan will certainly lead to lower prices in the immediate future but it is not a permanent feature of such policy. After markets have adjusted to lower guarantees, supply and demand will come into better balance worldwide. With more reasonable stock levels, prices should not remain continously depressed for extended periods as they do now. We would argue that with lower price guarantees, average prices actually received by producers can be higher over the long term. There could be more price variability, but we have a lot of tools such as futures, cash forwards and options that can handle this problem. The important thing to remember is that lower guarantees do not mean lower prices and incomes. In fact, the reverse is more likely to be the case.

Land diversion

Land diversion policy is critical to future U.S. competitiveness. PIK and other acreage reduction programs since 1980 have inhibited our ability to compete at least as much as excessive loan levels. In addition, promoting reasonably full use of our agricultural capacity is in the national interest. A large part of the agricultural industry lies beyond the farm gate. The U.S. has been able to capitalize on market opportunities because private industry and farmer-owned cooperatives built an efficient infrastructure to supply inputs and market farm outputs.

We have to remember that this efficient marketing system is not a permanent feature that will always be ready if and when we are ready to use it again. Our export capacity is currently being utilized at less than 50 percent of capacity. If this continues for any appreciable length of time, and it will if we do not change farm programs, capacity will shrink. Even more important, every year we continue our current program structure, we encourage our competitors to build more handling facilities and more efficient infrastructure that will make them even more formidable competitors in the years ahead. For these reasons, all acreage reductions and set-aside authorities should be eliminated.

Grain reserve

Some form of a strategic reserve of grain to avoid food shortages is a necessary and justifiable expenditure of public funds. But the current program needs to be changed. Under the current rules, the reserve can be used just like loan rates and acreage reduction to create artificial shortages and artificial price support. Even though such artificial price support is extremely short-lived in open world markets, our competitors respond accordingly—planting more to sell in world markets.

We urge the following changes be adopted in the reserve program:

The reserve needs to be capped at a level so that stocks do not become excessive, possibly 15 percent of annual wheat utilization and 10 percent of annual feed grain utilization.

Incentives for grain entry into the reserve need to be lowered to avoid the situation of artificial price support through the reserve.

Release triggers for the reserve should be abolished. Having pre-established release levels can create artificial market shortages. In the last year, the U.S. has imported Canadian wheat because release prices created artificial barriers restricting the exit from reserve of selected wheat types needed by U.S. processors.

Income support payments

If a market-oriented loan is implemented in 1985 legislation, direct payments will be needed. They should be more generous in the early years of the program because this is when the greatest income pressures for producers will come.

The most important thing about addressing deficiency payments or other direct government payments to farmers in a market-oriented program, is that the linkage between income supports and price supports be broken. The target price concept does not accomplish this because there is great temptation for government to control acreage to raise prices temporarily in order to reduce budget exposure.

The best and fairest way for these direct payments to be made is also the simplest. Income support payments should be made directly to farmers on a per-bushel or per-acre basis on 1985 base acreage with no stipulated requirements for planting the crop to receive payments. Payments should be set at pre-specified levels that are unrelated to market price or any other factor. In short, budgetary limitations should determine what can be afforded. Payments should be gradually phased down over three years, but farmers should know what the payments are at the outset.

We believe this is the right way to make income support payments because it is fair to producers and would be the least disruptive to the marketplace. It would target payments to producers that now have them but would not encourage overinvestment and bidding up of asset values because producers would know at the outset that the program was temporary. This form of direct payment should not encourage overproduction either. The producer receives the payment regardless of what he plants. Planting and production decisions would be based upon what the farmer expects to receive from market prices alone. And, from the producer's standpoint, what program could be more fair? It is hard for government to admit that there are budget limitations for agriculture or any other sector of the economy. But if the government plays it straight with producers and is out front with how much support can be afforded, then the producers would know precisely what this federal "budget limitation" means to his own operation. It would allow producers to plan ahead and decide for themselves whether they wish to continue farming.

There are other changes in programs that would help make the U.S. more competitive in export markets, but these are fundamental changes that we believe are absolutely necessary if we are going to start to rebuild U.S. markets and producer income.

We know these changes will not be palatable to some in U.S. agriculture. Those that think we should retrench U.S. agriculture and grow grain only for domestic markets by raising support rates and controlling acreage through government mandate will be dissatisfied. But what these people fail to realize is that retreating from world markets is not so easy in an open world economy. Maybe we could initially retire 50 percent of our farmland, 50 percent of our productive assets and forget about all the associated adverse impact on the national economy in terms of GNP and employment generated by exports. But the process only begins there. Grain and food prices would have to continue to be escalated to support asset values. As price differentials widen between domestic U.S. prices and prices for grain from foreign sources, economic pressures for importation of grain and food would grow. Maybe if the U.S. started importing grain, we wouldn't need to use the entire 50 percent of our productive agricultural assets. Eventually, maybe 25 percent or even 10 percent of all current agricultural assets could be adequate to meet U.S. consumption needs above the levels we could import.

This kind of isolationist policy is not very sound for the reasons just mentioned. But, ironically, our present policies—those policies embodied in the Agriculture and Food Act of 1981—are most assuredly driving us toward isolationism. The process is one of gradual isolationism, moreover, one of slow death for agriculture. The process has to stop and 1985 is the year to do it.

If we choose to continue this path toward isolating ourselves from world markets through support levels, acreage diversion and other means, it is important to fully understand the implications. The economic activity generated from agriculture is very large and a great portion of this activity is beyond the farm gate. In 1982 food and fiber production in the U.S. had a total value of $627 billion and provided 24 million jobs, about one-fourth of total employment in the U.S. It also accounted for 20 percent of Gross National Product. Only three million of the 24 million jobs in agriculture were actually on farms and ranches.

Obviously, national interests broader than only production agriculture are at stake in this farm bill debate. But fortunately, there are no policy conflicts in what is right for producers and what is right for agribusiness and related industries. If we do not pursue policies to regain our competitiveness and use our agricultural resources as they were intended—to produce grain efficiently—then everyone in agriculture loses.

It is extremely important that Congress and others involved in formulating our agricultural policies understand the urgency of the need for change. For the last four years our policies have left the door wide open to world markets for our competitors. Our policies have invited our competitors to plow up more land for crop production. Once land is in production it is much more difficult to remove, as we have seen from our own domestic farmers' reaction. With new land in production, our competitors have also begun investing in their marketing infrastructure including storage and transportation systems. We often forget about the efficient marketing system we enjoy in this country but it gives us a strong advantage. The U.S. today continues to have a strong competitive advantage in moving grain from farm to port, in terms of both shipment time and cost. But it is not a permanent advantage. If we go through two or more years of the kind of domestic policies we now have in place, our competitors will plow up more land and they will build more efficient marketing infrastructures. Plans are already underway in many countries. These changes will make these countries even more formidable competitors in the years ahead. If we delay taking corrective action, we leave the door open to our competitors that much longer and the hole we are digging for ourselves will only get deeper. We have the chance to recover markets if we take action in 1985. If we wait, we could lost that chance.

The government and producers need to form a partnership to get out of this policy quagmire that threatens the future of U.S. agriculture. Government programs have created much of the problem. The government needs to pay part of the cost to get us out of the mess.

The interim income payments made to producers to supplement income while rebuilding export markets need to be as generous as the budget process will allow. But to be fair with the farmers at the outset, they need to know how much income support they can expect from government during this adjustment period. If farmers understand that these program changes are necessary for their continued survival and they have the commitment from government on how much temporary additional support will be available, we think the producer segment will be much more willing to accept the needed policy changes.

Our Association appreciates the opportunity to present our views. I would be happy to respond to your questions.

STATEMENT OF CHARLES R. BOTTICELLI, PH.D., MANAGER, DEPARTMENT OF BIOLOGICAL SCIENCES, GTE LABORATORIES, WALTHAM, MA

I am Dr. Charles R. Botticelli, department manager of biological sciences of the GTE Laboratories in Waltham, MA.

I appreciate the opportunity to appear before this committee to discuss sec. 1406, "Special Matching Research Program for Private Sector Technology Development," of Senator Helm's proposed agriculture, food, trade and conservation act of 1985, S. 616.

Agriculture has long been one of the most successful sectors of the U.S. economy. The decline in the proportion of the labor force engaged in farming has culminated in an exceptionally high level of farm productivity. Over the past five years U.S. exports of agricultural commodities have averaged more than $40 billion annually, up from less than $10 billion more than a decade ago. The importance agricultural commodities play in the U.S. economy cannot be overemphasized.

We believe that a progressive and successful agricultural system includes the adoption of new technology from the private sector. Private sector technology is an important part of a market-oriented agricultural policy. We fully support the "opportunity oriented" or "market oriented" thrust contained in S. 616.

We support the introduction of Sec. 1406, in particular, Sec. 1473 B, which redirects a portion of existing agriculture research funds to allow and encourage participation of the private sector in agricultural technology research through a new matching grant program.

One means of improving farm profitability without direct Government payments to the farmer is to increase the emphasis on agricultural research and adopt high technology in agriculture. Improved methods for cost-effective production can enhance the profitability to those farmers who adopt them. Many believe that Government expenditures for research have been among Government's most productive investments. While the American system of land-grant universities, State experiment station, and cooperative extension services is designed to develop improved practices through agricultural research and encourage their use, currently the private sector is not encouraged to participate in basic agricultural technology research.

There is no mechanism available for research proposals from industry to be reviewed as all agriculture research now is funneled solely into land grant institutions. We believe an effort to allow cooperative agreements such as those proposed in Sec. 1406 with Federal facilities will greatly improve the research programs of the USDA, and agricultural research results.

There has been little growth in Federal support for agricultural research since 1975, compared with the 3.8 percent annual growth rate from 1939 through 1965. Private sector expenditures for agricultural research and development are difficult to estimate, but they are probably as large as the public-sector expenditures. Even if the private-sector research increases, however, the expenditures are more likely to be for innovations that are patentable, such as machines, drugs, and pesticides rather than basic high risk agricultural research.

We are familiar with the status of private sector involvement or lack thereof in agriculture research through a few specific projects that we have been working on for over 2 years.

GTE is noted for its aggressive research efforts to strengthen its role in communications and other high technology fields. But for the past two years our laboratories have been looking into a new area. We have been studying how different types of light and varying durations of it affect insect behavior, and whether specific behavior can be modified with lighting to protect farm crops.

GTE is not involved in this research on the basis that a great profit would be forthcoming. GTE researchers are interested in the scientific aspects of these studies. We are very much aware that insects are responsible for 40 percent of all crop losses in the world. American farmers spend hundreds of millions of dollars annually for insect pest control to keep losses below 15 percent, and most of this money is spent on toxic chemicals.

Most recent statistics indicate that of the approximately 500 million pounds of pesticides applied each year to U.S. cropland, 54% or 270 million pounds, are insecticides. Almost 50 percent of these insecticides are applied to cotton. The largest percentage (79%) of acres treated is in the Southeast and in the delta States. As a result, most major pest insects of cotton have developed resistance to one or more of these insecticides. This is rapidly depleting the arsenal of effective insecticides for use on cotton.

If selective lighting can be used as a substitute for or in conjunction with reduced toxic chemicals, a new market might become available to GTE, though the main benefit would be a contribution to the betterment of mankind.

To date, this research has continued without Federal support even though it is a small part of GTE's mainstream research efforts.

Though GTE will continue to support basic study on visual ecology of insects, the expansion of our efforts beyond our model systems is inconsistent with future corporate objectives unless we are able to receive some Federal support.

GTE is in a unique position to explore this research. Sylvania, GTE's lighting division, provides GTE with the latest lighting technology making it possible for biologists to have custom lighting designed for their research.

Our optimism for visual ecology studies is enforced by the success we have had in substantially reducing navel orangeworm (N.O.W.) damage to almond in California. Such control was accomplished with the elimination of all pesticides. Eliminating chemicals for N.O.W. permits the survival of beneficial predators for other almond pests such as spider mites and as a result further reduces the need for chemical controls. We believe this is an exciting area of research with major environmental implications.

Our preliminary laboratory studies of the heliothis compound eye and preliminary behavior studies of H. virescens, the tobacco budworm, in cotton suggest that this moth may also be controlled by altering its photo environment.

The heliothis complex, ranked in the top three U.S. crop pests and in the top ten worldwide, is a severe pest problem in tobacco, cotton, corn, and vegetable crops, particularly in the Southeast. In bad years, control of this insect alone can account for up to 25% of all insecticide applications to U.S. crops. Heliothis is difficult to control with pesticides because of its ability to rapidly develop populations resistant to toxicants. Recently, resistance was demonstrated to the latest generation of chemical compounds, the synthetic pyrethroids, the preferred compound for cotton pest control.

The heliothis moth is a nighttime active insect with a sophisticated visual system adapted to seeing under dim light conditions. There is evidence that the moths may have color discrimination ability as well. This suggests that vision may play an important role in behaviors. Observations of the nighttime behavior of the heliothis moth suggest that visual clues may play a key role in mate and host plant location.

A suitable site for field research is planned for Georgia in cotton. GTE will provide field project management and direction from staff scientists and personnel in addition to facilities for the required laboratory investigations. The coastal plain experiment station in Tifton, GA will provide field sites, nearby laboratory facilities, research materials, and on-site supervisory and technical personnel. GTE funding is only available for preliminary investigations. A GTE work schedule for 1985 has already been established for efforts in Tifton, GA (Exhibit I). A more expanded program of work will be adopted in Tifton and other research stations included if we receive fiscal year 1986 funding.

The prospect of controlling insects by altering their photo environments with the potential of reducing or eliminating toxic chemicals has exciting possibilities in the area of pest management. We believe sec. 1406 will afford us the opportunity to attempt to expand and complete these studies by allowing us to compete for some Federal assistance for this research effort.

While we fully support the addition of section 1406, there are a few specific modifications we would recommend in the language itself. I hope that the language on line 16, page 178 of the bill is a typographical error and should read:

"Not less that 5 percentum of the funds appropriated to the Agricultural Research Services" instead of ".5 percentum of the funds appropriated to Agricultural Research Service for such fiscal year may be used to carry out this section."

Additionally, I would recommend that [2(c)] read:

"To be eligible to receive a contribution under this section matching funds or in-house contributions in an amount equal to at least 50 percentum of such contribution shall be provided from non-Federal sources by the recipient or recipients of such contribution".

We believe that the addition of "in-house contributions" is necessary because in many instances private corporations will be willing to contribute professional scientists and/or technicians to the project, and they should be counted as matching funds toward the project.

New innovations in agriculture and emerging technological developments in agriculture can have a significant impact on production and efficiency. We believe a market-oriented agricultural policy includes private sector involvement in research.

We support this section, Mr. Chairman, and believe it will afford private sector innovation an avenue to become involved in agriculture research.

HELIOTHIS FIELD RESEARCH FOR 1985

Georgia

Contact person: Dr. Gary Herzog, Coastal Plain Experiment Station in Tifton, GA. (912) 386-3374.

Milestones to complete

1. Field installations: Install an HID lamp with a green filter. Install reflective barriers at canope height every 30ft from the light on one side. No filter and no barriers on second side.

A. Equipment descriptions

1. *HID lighting system:* A pole with two HID fixtures will be erected in the center of the field with one lamp facing East and one facing West. The lamp facing West will be equipped with a yellow-green filter. The one facing East will have no filter. The pole will extend above the ground such that the lamps will be adjustable at the 10 to 15 ft. level. Lamps will face outward such that light is thrown from 10' to 150' from the pole.

2. *Barriers:* Barriers will be erected at 30' intervals from the West facing light pole. They will be constructed of reflective material set at an angle to the light which will allow most of their reflective surface to receive maximum illumination. If constructed of fabric, there will be periodic slashes to enable air to circulate through without moving or tearing the structures.

a. Suggested fabrics: Silvered mulch (stored in Florida), white heavy sail quality polyester, or painted plywood structures.

B. Field description

Layout of planting: Cotton to be planted in North-South rows in field at least 300'wide and 300'deep. Can be a corner of a field so planted rather than an isolated block. To facilitate barrier installation, a vacant row should be left at approximately 30' intervals on the West side. Pad for pole to be located in very center of block.

Locations: Field should be close to electrical source for power for the light system. Also a secure area should be selected. To avoid complaints from neighbors, a row of trees should stand between the lighted area and any houses.

2. Behavior studies and monitoring: Damage to bolls and number of eggs and larva on plant should be checked for the East, West, and Control every three weeks through the season. This can be done by a person at the site. Studies of adult reaction to the lighted areas and barriers to be conducted at two times (late July and mid September 4) by GTE personnel.

A. Behavior studies

1. Study the reactions of adults to various environments by observing their behavior in the three field areas.

2. Study the reactions of the larvae by noting their age (size measurement) and position on the plant at random points through the block.

3. Record the pattern of egg deposition by searching plants for eggs at intervals of distance from light source.

4. Measure intensity of light at distances from source and at surface of each barrier.

B. Monitoring

1. Check ten random plants in each area between barriers or at 30'(East side and control) for presence of eggs and larvae. Note plant part on which they are found and height on plant.

2. Periodically make a visual observation, walking through each block, of the total number of Heliothis adults flying during a 10 min period.

3. Bioassays: In the field, study spectral affects of light on dispersial and orientation behavior.

A. Affect on adult within field dispersial and mating: Expand the technique developed and used in Arizona last fall to include lamps that represent more of the insect's visual spectrum.

B. Larval orientation: Use small lamps at night to determine if migrating and feeding larvae are deterred by the lights.

Calendar

Trip 1: Approximately May 1. Visit site in Georgia to meet with Herzog and discuss plans. Layout plots. Continue on to Florida and arrange for shipment of HID fixtures to Georgia.

Trip 2: Approximately June 1. Visit site and set up lamp and barriers. Do initial monitoring.

Trip 3: Approximately July 20. Conduct behavior studies and bioassays.

Trip 4: Approximately September 15. Conduct behavior studies and bioassays. Arrange to dismantle and store equipment.

LABORATORY STUDIES ON COTTON PESTS THAT COMPLEMENT FIELD WORK

Milestones

1. Visual systems investigations: With G. Bernard, continue the study of Heliothis visual sensitivity on adults reared from field collected larvae. Characterize the visual sensitivity of H.zea adults, the armyworm moth (Spodoptera), and the pink bollworm moth.

A. Collection and rearing: To be conducted at Tifton with adults sent to Yale.

1. Pink bollworm may come from California or Arizona.

2. Laboratory bioassays: Study attraction of adults to spectral regions of light at eclosion and maturity. Monitor egg laying of laboratory reared insects under different photo environments.

STATEMENT OF WES HAYDEN, LEGISLATIVE COUNSEL, INTERNATIONAL ASSOCIATION OF FISH & WILDLIFE AGENCIES

Mr. Chairman, it is a pleasure to appear here today on behalf of the International Association of Fish and Wildlife Agencies to present our views on the proposals now before you for development of the 1985 Farm Bill.

As you are undoubtedly aware, our organization includes fish and wildlife agencies in each of the 50 states, Canada and Mexico as well as five federal agencies among its members.

Let me add, before going into details of our presentation, that the Society for Range Management has asked to be associated with this statement and the position which it reflects.

Because the governmental members of this Association are charged with the responsibility for managing fish and wildlife, they are directly interested in anything that affects fish and wildlife habitat. Habitat obviously is one of the products of agricultural legislation and its collective impact upon land uses. Habitat is a survival issue.

Let me emphasize that our Association and its member agencies are fish and wildlife managers, but—we also recognize the need for food, fiber, and energy. However, we believe that these agricultural products must be produced in a manner that protects two of the Nation's major natural resources—its soils and its waters. If we diminish our soil and water resources, we will have reduced our total national productivity—our agricultural and wildlife heritage will both be among the losers.

Our Association has a Habitat Protection Committee which has been preparing for the 1985 farm bill for over a year. Additionally, our Executive Vice-President, Jack Berryman, now serves as Chairman of the Agricultural Task Force of the Natural Resources Council of America.

Our Association interest is not focused narrowly on fish and wildlife. We recognize that farmers must be assured a fair return on their investments; and that wildlife production and harvest must be harmonious with other land uses and other needs of society. Realistically, a natural partnership exists between the conservationist and the producer. It should now become a political partnership.

We believe that sound soil and water management is good for fish and wildlife; it is good farming; and it is good economics. Polls have repeatedly shown that the American public wants political and financial support for conservation programs.

The increasing global demand for food, fiber and energy requires a reappraisal of policy. The United States must construct its agricultural program and live by a single basic tenet: *that the Nation's soil and water, the source of its productivity and the guarantee of its survival—shall not be threatened, diminished or mortgaged.*

This Nation must act to prevent—or at least minimize—soil erosion, with the objective of keeping soil losses within acceptable tolerance limits for particular soil types and situations, thereby ensuring productive and sustainable agriculture and other uses of land.

This Nation must maintain and restore water quality to perpetuate the physical, chemical and biological integrity of its waters and to meet the National goals for water quality as set forth in the Federal Water Pollution Control Act. *This Nation must sustain production and survival of its wild living resources.*

Special attention must be focused on areas having severe, chronic problems—excessive soil erosion, nonpoint source water pollution, wetlands losses—all are well documented. The solutions require a strong federal commitment to policy, budget and guidelines which promote sound soil and water management.

The mechanisms for regional, state and local cooperation are already in place. There needs, however, to be improved coordination and, the mandatory consultation with state agencies. However, inconsistent federal funding and incentives and cross-purpose programs have all contributed to a lack of progress and mistrust of what should be a most respected alliance of natural resource managers.

The latest major revision of authority for farm programs occurred with the enactment of the Agriculture and Food Act of 1981. The 1985 Farm Bill will guide American farm policy for the next decade.

The following recommendations for inclusion in the 1985 Farm Bill are not concessions to wildlife, but rather are necessary measures to preserve our precious soil and water;

1. *Incorporate language to ensure that conservation features are integrated into all commodity programs.* The overriding criteria should be to hold soil losses below replacement rates.

Conservation can no longer be treated as an add on—a single title in the Farm legislation, comprised of a few funded practices inapplicable in many production schemes and in whole regions of the country. Rather, conservation must be woven into the entire fabric of the measure—not as constraints or obstacles to the working farmer, but as positive features of all titles.

2. *Eliminate federal farm program benefits to those who would convert any existing noncropland into production,* including highly erodible lands, rangelands, riparian areas, terraces, windbreaks, and wetlands.

Federal incentives for draining and clearing wetlands, for adding acres to produce commodities already in excess, are inexcusable by a government that has identified soil erosion and water pollution as major problems.

3. *Establish a long term Conservation Reserve,* with a goal for removing 30 million acres of erosion prone lands from cropping.

Lands that are currently not in production but that are in a rotation scheme would be eligible. A bid for a rental fee should be submitted by the farmer to reflect loss of income from nonproduction, the cost of establishing suitable cover, and probable profit from non-tillage uses (such as tree or hay production). A five to ten year contract would describe allowed payments and uses; violation of the contract would result in a loss of federal farm program benefits and the requirement to pay back benefits already collected by the farmer.

This proposal would result in Federal cost reductions. This subject will be treated in more detail by other witnesses.

4. *States should be encouraged to develop guidelines* that could be more strict for the so-called "sodbuster" lands and the "conservation reserve" to respond to state concerns. Federal farm program benefits to farmers would be tied to their compliance.

I think you will find that these suggestions for the 1985 Farm Bill are complementary to concepts that will be expressed by resource managers and from other disciplines who are interested in resource stewardship. I think you will also find that these concepts have broad acceptance among agricultural interests.

We appreciate this opportunity to comment; we will be pleased to assist in formation of the legislation or assisting in any other appropriate way in its development.

STATEMENT OF TIM PIGFORD, UNITED FARMERS ORGANIZATION, BLADEN COUNTY, NC

Madam Chairman and members of the Senate Agriculture Committee, my name is Tim Pigford and I am a corn and soybean farmer from Bladen County, NC. I am a member of the steering committee of the United Farmers Organization which is a two state organization consisting of concerned farmers from North and South Carolina.

The United Farmers Organization is committed to providing immediate assistance to farm families with financial hardships. We have seen farm credit conditions under the present policies worsen with each passing month. We have seen various attempts made to temporarily bail out farmers and none of them have had impact in our communities in North and South Carolina. We know that many people now making their living from farming will be pushed out this year. These trends will continue if we do not take action in the 1985 Farm Bill to build sound farm credit policies which will carry farmers through the hard times as well as the good.

All farmers are hurting. Some have their land paid for and some are in debt for all they have but no farmer is truly making money. Those of us who have had to borrow to pay for land or to operate are losing our farms to the interest payments alone.

Black farmers face extra problems. Black farmers today, Madam Chairman, are losing farmland two and one half times faster than our white counterparts. At this present trend there will be no black farmers in America by the year 2000. In 1982 there was an increase in white farm operators of 1.4% compared to a decrease of 6.2% in black or non-white farm operators. In North Carolina, which has the largest black population of farmers, there was a decrease of 9.8% for white farmers in comparison to a 23.2% decrease in black farmers over the same period of time. In 1982 black farmers received only 1% of total dollar amount of loans under the farm ownership loan program, 2.5 of the operating loans, and 1% of soil and water conservation loans.

Under the limited resource loan program, which Congress created expressly to provide low interest loans to minority farmers and other limited resource farmers, low interest loans to black farmers declined 68% from 1980-1982.

The main problem here, Madam Chairman, is the failure of USDA and FmHA to provide credit and low interest loans to black farmers. Farmers Home Administration has failed to advance and in some cases have hindered the efforts of black farm operators to remain a viable force in agriculture.

The United Farmers Organization has developed an "Emergency Farm Debt Repayment Proposal" which could be included in the 1985 Farm Bill to remedy our debt problems over a longer period of time. This plan will allow farmers to work out from under the debt which has accured over the years of crisis and thus save the taxpayers millions of dollars which would otherwise be lost in foreclosure sales.

Our plan is to have farmers who borrow from FmHA put their back debt into two accounts. One account would bear a reasonable rate of interest while the other bears no interest. The first account, which bears interest would be based on a farmer's equity and average farm income—this would be called the "servicable debt". The remaining debt would be set aside until the principal in the "servicable debt" account is paid down. So we would always be paying interest, but not so much to drain us, and all the principal would eventually be repaid.

Additional recommendations are as follows:

Strengthen requirements that FmHA use loan servicing options and provide loan payment deferrals. In fiscal 1984 only 56 North Carolina and 17 South Carolina deferrals were granted. Also the Farm Bill should strengthen the Farm Credit Administration to give the Farm Credit Service borrowers rights to the same options.

FmHA loan processing should be speeded up. Loan approvals should be decided 30 days from the time the loan application is made. Loan funds should be ordered within 5 days from the time the application is approved.

FmHA county committees should be elected rather than appointed. At least 2 out of the 3 committee members should be elected by active farm producers (not simply land or allotment owners). The members must depend on farming for at least 70% of their income and should reflect the racial makeup of the county. Terms of office should be staggered so that one member is replaced each year.

FmHA discrimination complaints should be investigated on-site by an objective review board appointed to oversee equitable distribution of loans and fair access to FmHA services.

The FmHA appeals process should be redesigned to have one informal meeting at the local level, followed by one formal hearing within the agency and, if still unresolved, followed by a hearing with a administrative law judge to provide an independent opinion.

The Farm Credit Administration should be strengthened to enforce within the Farm Credit Service (FCS) the following: fair loan servicing, an elected Appeal Committee made up of farmers and others who know farming, and the release of Farm Credit Service borrowers to FmHA if these farmers are unable to continue making paymenty under FCS interest rates.

[The following material was submitted by Tim Pigford and Charles Freeman of the United Farmers Organization:]

UNITED FARMERS ORGANIZATION

EMERGENCY FARM DEBT REPAYMENT PROPOSAL

(Prepared by working North and South Carolina farmers—February 1985)

I. INTRODUCTION

With decreasing numbers of people on farms and increasing numbers of Representatives from urban districts, it is safe to say that cheap food is prioritized on our national agenda over a fair farm income. Farmers and the products from our farms have been used to guarantee a cheap raw product for food processors who in turn charge high prices to consumers. Many are hurting on both the farmer and consumer ends. In addition, farm products have been used in the international arena to balance trade and even as weapons to gain political favor with certain nations and to punish others. In short, our nation's farmers have contributed through our equity and labor to the American standard of living and the United States' position as the strongest democracy in the world.

U.S. farmers have not begrudgingly supplied our products; on the contrary, we have always responded to calls to increase production and to become more efficient at doing so. The fact that our record production has been rewarded with ever lower prices and that increasing numbers of farmers are losing out completely makes us angry, frustrated and in need of help.

We realize that farmers are part of a complex international system of trade which is often influenced by various political motives. The value of the dollar, for instance, has to do with the cash flow situation of our farms. Our interest payments are influenced by the world situation. Our prices received are at the mercy of global economic forces.

These forces do not operate in a vacuum, however. Foreign governments every day subsidize the production of commodities in direct competition with ours, even though farmers from other countries are also experiencing financial chaos. Corporations dominate the world trade of storable commodities. Wheat, for instance, is controlled worldwide by only five grain companies. The Chicago Board of Trade aids their control of U.S. grain. Tobacco companies control not only the purchase of U.S leaf but work with foreign governments and producers to boost their competitiveness with American farmers. Tax breaks allowed by our government encourage non-family farm investment in agriculture and allows livestock production to be unprofitable to the family-sized producer.

Farmers have not been operating alone. We have been and continue to be at the mercy of the U.S. and other governments as well as the large multinational corporations which have so easily dominated our price situation. We contend that "getting government out of agriculture" would only worsen the problem. Family-sized farms cannot compete in an arena with corporations. We need our government as our referee; especially since the U.S. government has played such a huge role in putting us where we are today.

The international situation in agriculture is important background to this proposal. By looking back at the government's role in agriculture we believe there is ample evidence to take most of the blame off the backs of farmers. We are victims of circumstances beyond our control.

We contend that the lifting of acreage reduction programs and the emphasis on expanded production as stated in the Agriculture and Consumer Protection Act of 1973 had much to do with our current crisis. We believe that mandatory production controls based on actual need for our products, coupled with a break-even floor price, would allow profit to return to agriculture. The "market clearing prices" proposed by some would simply be "family farmer clearing prices". There will never be such a thing as a free market for U.S. farmers.

Long-term solutions are an absolute requirement. Returning American agriculture to the family farmer with responsible programs targeted to a size farm where most efficiencies are reached is required. Taxpayers should never be asked to subsidize a farm of a larger size as with the PIK program. Tax breaks for non-family farmers will have to be eliminated so that we can make a profit.

While we have mentioned long-term solutions, and these are worth a separate proposal in themselves, we are in immediate need of short-term debt relief. We must remember that debt-relief is only as good as the long-range solutions which allow us a profit to repay those debts.

II. PURPOSE

This proposal is written with one goal in mind: to save the family farm. Already we are watching our neighbors and friends go under. They are part of the cold numbers of foreclosures disguised as liquidations. All of these numbers represent broken dreams, lost income, and a loss of one more part of the competitiveness and innovation which has made American agriculture so strong in the past.

This is a proposal that would help each farm family caught in circumstances beyond their control to restructure their debtload on an individual basis. Farmers who have struggled to make their land productive and who have watched their equity dwindle as their land and equipment loses value daily should not be replaced by a new farmer who can take advantage of depressed prices. Present owners, not new ones, should be the target of our emergency aid to farmers. Of course we should encourage beginning farmers but they should not be allowed to enter farming in situations not connected to farm families in financial straits who are being pressured to sell out. Immediate family members should be given first option to buy their family's farm, if agreeable to the present owner.

In addition, small as well as large family farms should be helped by this program. Family farms which derive at least 70% of their gross income from farming should qualify. Family-owned corporations should qualify as long as they meet this criteria. Farmers with off-farm jobs taken on to help service their farm debt should not be excluded from this help.

III. THE DEBT-REPAYMENT PROBLEM

With our present debt situation, those of us who did not inherit our land and equipment cannot farm our way out of debt. Everything we own has been devalued and all that we produce is bringing ever-lower prices.

Most farmers in the Carolinas have outdated equipment. Even the best farmers are operating with equipment purchased on the average of 1975 to 1977. We cannot keep our land, equipment, or livestock up to its maximum efficiency.

Many of us have increased our acreage to help service our growing debt. Others of us have decreased our operation hoping that the proceeds from sold land and equipment along with decreased operating costs would help our cash flow. Many of us have barely scraped by and have paid the current year's bills but we cannot farm away the debt regardless of the method of improving our operation we use.

PROPOSAL

We propose that each farm family be allowed to reduce their overall indebtedness to a serviceable level. Percentages of indebtedness figures cannot work here. Each farm is vastly different from another.

A figure using a 3–5 year average of production a particular farm produces should be calculated. This will determine the amount of debt the farm in question can service. Off-farm employment should be included if a family member is already working off the farm. This figure then will be used to determine the serviceable debt to total debt ratio.

An appraisal done by an independent professional, to which both parties (lender and farm family) agree, should be carried out to determine equity for the current year's operating loan and for overall net worth.

After determining the amount which the individual farm can service, the Farmers Home Administration should then, upon request of the farmer, restructure the total amount of indebtedness into two notes so that the first of these notes represents that portion which is approximately equal to the amount of the serviceable debt. This portion will bear a reasonable rate of interest so that the farmer's proceeds from normal operations will service the debt of this note, including interest.

A second note representing the balance of the indebtedness will be set aside and bear no interest. Thereafter, on an annual basis, the Farmers Home Administration, with the farmer, shall review and determine the amount of principal repaid in the first note. In the event of an unforeseen financial crisis, a review of the serviceable debt amount should be conducted and adjusted accordingly. Following this review a portion of the principal balance due on the second note equal to the amount which has been repaid on the first note will be transferred to the first note to bear interest and be repaid under the terms of the first note (with a reasonable extension on the amount of time required for repayment).

The restructuring of loans in this manner will allow each farm family to repay all of the principal involved in past loans with a significant interest payment. The

Farmers Home Administration by this method will increase the likelihood of repayment and avoid the losses which occur from foreclosures or other types of sell-outs.

Here is an example: Joe and Mary Farmer owe FmHA $500,000 of principal and interest. Their operation, along with their collateral, with only reasonably service $200,000 of this debt. After meeting with the farm family, FmHA restructures payments to service the $200,000 debt and sets the other principal and accrued interest balance (or $300,000) aside. At the end of that year Joe and Mary Farmer have paid $50,000 to FmHA. Assuming $30,000 was interest and $20,000 was principal, FmHA, after meeting with the family, transfers $20,000 of the balance from the second note over to the first note. Thereafter, Joe and Mary Farmer will owe $200,000 on the first note and $280,000 on the second note. This process would continue until the farm family's operations can clearly support interest payments on all indebtedness, or until the balance of the non-interest bearing portion of the debt is satisfied in full.

Other lenders should be strongly encouraged to cooperate with the terms of the current debt readjustment plan in which private lenders can be guaranteed 90% repayment in turn for writing off 10 percent of the farm debt. New bills have been introduced at this writing which upgrade the effectiveness of this set-aside plan.

Borrowers considered too risky for private lenders should be transferred to the FmHA plan proposed above.

Potential losses to FmHA which will occur from foreclosure and "voluntary" evictions are avoided under this plan. The taxpayers lose much less since having the principal and some interest repaid is much more than what these farms and equipment are bringing on the open market.

Under no circumstances should FmHA finance the forced buyout of a working farm. Farm families presently in business must have the first right to continue owning their operations.

SUGGESTIONS FOR CONGRESSIONAL ACTION

1. Support this proposal and designate a staff member to work with the United Farmers Organization. This member could advise on steps to getting our suggestions passed and work with us on getting the proper information to keep it moving.
2. Support Senate Bill 371 which allows fairer rules for deferrals and debt servicing.
3. Support House Bill 1035 which provides additional emergency credit in time for spring planting and eases eligibility requirements.
4. Notify our organization of other pending bills, hearings on credit or other agriculturally related subjects. Invite us to testify at these hearings.
5. Help us work with other non-governmental lenders by strengthening the Farm Credit Administration and allow this agency more restraining powers with farm lenders.

STATEMENT OF WAYNE STONE, CO-CHAIRMAN OF THE ROBESON COUNTY CHAPTER OF THE UNITED FARMERS ORGANIZATION

I am Wayne Stone. I farm tobacco, corn, and soybeans in Robeson County, N.C. I am a United Farmers Organization member and the Co-Chairman of the Robeson County Chapter.

I am here today to talk about the problems and abuses of the County Committees within Farmers Home Admistration farm loan programs.

The idea of having local control over federal agencies is good. The county committee could be an example of positive community involvement in the loan-making process. The County Committees could provide checks and balances when decisions are made by FmHA personnel. Federal employees working with local citizens could ensure fairness to our nation's farmers when they apply for an FmHA loan. But the system is far from fair. In many instances the two-step process of loan approval is nothing more than a formality; in others, the County Committee and/or County Supervisor are so influences by other motives that farmers applying for loans are put into a system more influenced by politics than management ability.

In many counties the FmHA County Committee acts as a rubberstamp. Farmers from other places tell me their county committee members are powerless. They are simply told to approve or disapprove a stack of loan papers. Farmers are very rarely called in to meet with committees even though this is permitted in their regulations. Supervisors call the shots in these counties and Committee members simply sign their names on the line.

In my county, it is the opposite. Our County Committee members have the power. The Chairman of the Committee is a member of one of, if not the wealthiest families in the county. Another committee member is his employee. These two out of three members are controlling the processing of our FmHA loans. It seems that many of the FmHA personnel are scared of them. For example, I was having a private meeting with my County Supervisor last spring and the County Committee Chairman entered the room without knocking and began complaining about me contacting Congressman Rose's office for help. The County Suptervisor made no move to get us back on the track of the meeting or to ask the Committee member to leave. I think the County Supervisor was scared of his own Committee member.

The Farmers Home Administration is in need of reforms and this is a clear one: We must change the selection of at least two of three committee members from a political appointment to an election by farm borrowers.

Only active producers, not simply land or allotment owners, should be eligible. These farmers must depend on farming fcr at least 70 percent of this income. The three members should also be racially balanced to reflect the racial makeup of the county. In Robeson County, for instance, we should have one black, one Indian, and one white member.

Elections should be held among farm borrowers at a called meeting during November. The members should serve 3 year terms and the elections should be staggered so that one member is replaced each year. This member should have knowledge of financial matters and should be objective in his or her approach to the loan-making process.

Thank you for your attention to this matter and for the opportunity to appear before you today.

STATEMENT OF SHANNON FORBIS, UNITED FARMERS ORGANIZATION, ST. PAULS, NC

Gentlemen, I am Shannon Forbis, appointed spokesman for United Farmers Organization. I would like for all farmers and farm family members representing the various groups of UFO members to stand at this time. Thank you.

We appreciate this opportunity to talk with you today about some farm credit problems. When we woke up this morning there was electric power and telephone services available in our homes. But more important 99⅔ percent of us if not all had food on our tables. I cannot help but think about the profits the telephone and electric companies are making from the services they provide. But the American farmers are going broke, producing more food than in any other part of the world. It doesn't seem fair that we produce the only thing that humanity must have, but yet we cannot make a profit.

In 1983 my son and I applied for a FmHA operating loan and it was approved. After 30 days the money was not available but the county supervisor assured us the money was coming. We notified all our fertilizer and chemical companies that the money would be coming soon. We had already started our spring planting and as soon as the money came they would be the first to be paid off. We called and stopped by the county office on several occasions between April 1, and August 15. Each time we phoned or visited the county supervisor said the money was on the way. About the end of August I stopped by Chesterfield county FmHA office to pick up the check for the operating money. I was told by the supervisor he had received a letter from the state FmHA office in Columbia, S.C. stating that we didn't need any credit because our crops were already planted and in the fields. By not getting the credit we had to go back to our creditors and tell them we had been lying all summer long. This put us in a bad situation with the fertilizer and chemical companies.

1983 was a dry year in Chesterfield, we could not get enough money for our crops to pay the companies. By the time we were able to pay the bills off it had cost our families over $10,000 in interest alone. If we had known about the appeal process the decisions could have been appealed.

The UFO would like to make these recommendations for the purpose of reforming the FmHA Administrative appeal process.

Disagreement between FmHA local officials and farmers involve complicated relationships. Very large sums of money are at stake, and timing can be very critical. Over the last three years, the livelihood of the farm family has been at stake. The current FmHA appeal system has been unable to deal with these demands.

FmHA statistics (1983) show that 3.6% of appealed FmHA decisions are reversed. By way of contrast, the Social Security Administration has a reversal rate over 50%.

FmHA appeal system has been in use since 1979, and its application to the farm loan programs has been frustrating and largely for both farmers and FmHA local officials.

A healthy appeal system would provide a way for testing and protecting the integrity of the important public purposes delegated by Congress to FmHA. In the case of FmHA farm loan programs, an appeal system must be designed to cope with the complexity of FmHA farm loans and should strive to treat all farmers alike.

The FmHA appeal process is presently unfair because it has an in-house appeal process. FmHA personnel who are involved in the initial adverse decision are often used in the appeal process.

We would like to have an impartial person to hear the appeal. To avoid biased hearing officers and to ensure fair appeal procedures, administrative law judges should be used in FmHA appeal hearings rather than FmHA personnel.

We would like regulation for the appeal process to be defined more clearly and have written notices of the decision within ten days.

We would like for all adverse decisions to be made appealable and have disputes settled at the local level whenever possible because some of our members have been caught in the appeal process for more than six months.

During the appeal hearing we would like the opportunity to submit all information. On several occasions, county supervisors refused to allow borrowers the opportunity to present all their evidence.

Finally we would like to be able to move the appeal outside of FmHA after the first level of appeal.

I would like to thank you for giving me this opportunity to testify before you today, and hope that you will seriously consider our proposed changes.

STATEMENT OF JAMES E. ELY, PIEDMONT, SC

Dear Sirs, thank you for the opportunity of being heard on the problems facing us farmers. In my opinion we need to stop the senseless destruction of the American Family Farmer immediately! At present we are losing 250 farmers a day, this has got to stop! Therefore I propose an immediate moratorium of all foreclosures for a period of eighteen months or until this problem is resolved.

This administrations' FmHA proposals is a continuing destructive force. The legislation we already have on the books is difficult, if not impossible for some local FmHA people to enact, as they do what ever they want to. Some abide by regulations only when forced to do so. The new proposals seem to be a deliberate attempt to destroy the family farmer.

We farmers are dedicated to farming as a way of life not just another business. If we wanted to be business men only, we would get into the pliers or toilet seat business.

We need to take note that the family farmers have the highest productivity of any industry in the United States. The destructionist of America believe they can solve the farming problem by slaughtering 20 percent of the family farmers. If this trend is allowed to continue, they will have accomplished this goal and more before anything is settled on the '85 farm bill. Someone has to pay for this destruction, therefore this bill will go to the consumer. The budget will never be balanced or the deficit lowered by means of destruction. We all know this can only be done through productive means.

Destroying the family farmer is putting the worst kind of tax on the American consumer, it is a tax that will never end, it will always increase. Neither the consumer not the government will be able to control the corporate farmer, because you can not vote this bunch out every four years.

It has been asked if we should get into the world market. We are in it whether we like it or not. Everytime a country gets into a food crisis we give it away, we should be trading for raw products before a crisis occurs.

I think it is time to take our farm program out of reverse and start selling on the world market, and quit playing "footsie" with these other countries who subsidize their farmers in order to sell their products while we sit here on ours. We need to serve notice on these countries that we are going to sell our products, and if it takes subsidizing our farmers until the other countries decide a world market is best for all, and we can all make a profit, then subsidize. We should do away with most if not all of the support prices, give-away programs, and tax loopholes. These have needlessly cost the government billions of dollars.

There is a very critical situation that needs to be addressed. A large number of our family farmers have a minus net worth. Most of these farmers will face bankruptcy within the year. The statement I am about to make will draw fire from the conglomerates and some politicians who would like to see the family farm destroyed. I propose that the debt owed the Federal Government by these farmers be reduced to their net worth, if at that time they are able to make their payments on the reduced amount. Any way you look at it this money is gone anyway, plus the added expenses of bankruptcy procedures. This would keep the farmer producing, but put an end to this administrations' quick fix solution of destroying the family farmer.

If he, (the farmer) is destroyed the conglomerates will have total control of agriculture. When this happens the people have lost their *voice* and no longer have control of their destiny. This is the most important issue. This is the issue!!

STATEMENT OF ANNIE MAE CHAVIS, UNITED FARMERS ORGANIZATION, HOPE MILLS, NC

I am Annie Mae Chavis. I farm tobacco and soybeans near Hope Mills, North Carolina. I am a United Farmers Organization member and I speak for our members and for all the farmers being squeezed by problems in farming. If something is not changed, thousands more farmers will leave the land and no black farmers will be in the business!!

One way we are being squeezed is by the paperwork required by FmHA. Throughout the year we are constantly being asked to have papers signed by our suppliers to report to the FmHA office to sign a paper or to update our farm plans. For many of us these trips mean entire days lost that could have been spent on the farm doing important work. I don't have anybody to go to the office while I farm. I do it all myself. When I'm gone, nothing gets done.

All this is bad enough, but now we have the Coordinated Financial Statement all to our troubles. Farmers keep their own records with a system that makes sense for their farm. Most of us continue to keep our records now even though we have to do more work for FmHA. We feel that the records were made for somebody else. They don't help us, they just help FmHA keep more hold on our lives.

When the farmers need help, we get more paperwork. An agency that is supposed to help us more and more things to fill out and sign. I am already overworked and I don't have time to do work that does not help my farm operation.

Right now we are told we have too much of everything—everything from milk to tobacco. We are a blessed nation. But our leaders keep making excuses when it comes to helping the farmer. This nation is going to go hungry. We must get good support from Washington. We need support, not promises.

One way of helping is to scrap the Coordinated Financial Statement. It doesn't help us. Let farmers decide what kind of records would help them at least there will be a purpose to filling them out.

Even FmHA personnel in some counties I know of don't understand the CFS forms. Again, the government has made more red-tape for us and nobody benefits. . . . except the people who sell the CFS forms.

Remember the farmers as bills are being written. We need a sound farm bill that includes FmHA reforms and a long-term plan. We don't need anymore one-year agreements.

Thank you for this opportunity to appear before you today.

STATEMENT OF JOHN CHANEY, UNITED FARMERS ORGANIZATION, CABARRUS COUNTY, NC

I am John Chaney from Cabarrus County, North Carolina. I am a member of the United Farmers Organization. I raise hogs, corn, soybeans and small grains. Although my son and I farm on a large scale we have operated without crop loans for the past 3 years. We are like thousands of other farmers. We owe a large sum of money to FmHA and we faithfully repay our loans as we are able, but we have been denied additional credit. Running a farm like ours without operating loans is almost impossible, but we have been doing it.

Our back debt is what is killing us in terms of our cash flow. I speak for many farmers—some in this room and some unable to get out of the field to come today—and we call for a realistic plan of debt relief.

The United Farmers Organization (UFO) has adopted an "Emergency Debt-Repayment Proposal" which I will leave with you today. This proposal outlines our plan for how farmers might work out from under the debt which has accured over the years of crisis. We want to repay the debt but it is unrealistic to believe that all of us can service the interest which counts up even as we sit here today.

Our proposal, briefly, is to have farmers who borrow from FmHA put their loans into two accounts, one which bears a reasonable rate of interest and one which bears no interest. The account which bears interest would be based on a farmer's equity and average income—this would be called a "servicable debt". The remaining debt would be set aside until the principal in the servicable is paid down. So we would always be paying interest, but not so much to drain us. And all the principal would eventually be repaid.

It is our firm belief that we would save the government money with this plan. Forced sellouts and bankruptcies result in millions lost in tax dollars. Already land values have fallen drastically and we are experiencing an agricultural depression. Keeping land in the hands of family farmers would not only prevent a worse crisis but would eventually begin to brighten the future of agriculture.

Please study our Emergancy Debt-Repayment Proposal and respond to us on this matter. Thank you for the opportunity to appear before you today.

STATEMENT OF JAMES E. WALL, JR., VICE CHAIRMAN, BOARD OF COUNTY COMMISSIONERS, MORVEN, NC

Farm credit is a major concern of the citizens of rural America. Farm credit is essential to the survival of agriculture in the United States. It is important that all financial sectors work together to provide credit to the agricultural community.

I am a County Commissioner from Anson County, North Carolina. The farmers in Anson County have severe financial problems. These problems were caused by adverse weather since 1977 and they are being compounded by the Farmers Home Administration system.

With loans not being approved in time to allow farmers to have money during the planting season, it is impossible for the farmers to produce crops and to therefore repay their loans. Not approving loans in a timely fashion has a more damaging effect than disapproving early in the process. From conversations with people throughout the state and nation, I find that this is not a local problem but one of the entire system.

Loans are not being serviced in accordance with provisions under the Farmers Home Administration regulations. This seems to be caused by directives originating with officials higher in the system than at local level.

In a new farm program there needs to be adequate provisions made to improve the system so that it will work for the agricultural community and not against it. In the past, it may have been too easy for some people to get credit. Now is not the time to overcompensate and throw all of the farmers "to the wolves". If a large number of farmers are forced into selling out, the collateral of all loans will become worthless. If this happens, the cost to the government will become tremendous. If farmers are allowed to continue to operate, they can repay these loans and the cost to the government will be minimized.

A good loan program that benefits farmers is the Commodity Credit Corporation. This allows the farmers to do a better job of marketing and leads to more stable prices.

I hope that over the next few months a program will be drafted that will benefit the farmer and therefore the entire United States. A farm program should lead to an adequate supply of food, at a price people can afford to pay. Agricultural subsidies and loans benefit the entire country with resulting affordable prices and adequate supplies. The alternative may lead to unstable supply and widely fluctuating prices.

As as elected official, I understand the problems you are facing. The problems facing the farmers today could result in problems facing every home in the United States tomorrow. My thoughts will be with you in the coming months as you work to solve these critical problems.

STATEMENT OF GEORGE B. WATTS, PRESIDENT, NATIONAL BROILER COUNCIL

Mr. Chairman, I appreciate this opportunity to appear before the Committee today on behalf of the National Broiler Council. Our members, who produce, process and market approximately 85 percent of the meat type chickens in the United States, have a strong and vital interest in the development of future agricultural and food policy legislation.

We did not appear before this Committee when the 1981 Farm Bill was being considered. Likewise, we were not heard during the debate on farm legislation prior to 1981. We, along with many other non-supported commodity groups, have historically viewed the process of writing a farm bill as an exercise that at best did not directly affect us, or at worst was something we could survive with minor adjustments.

The poultry industry can no longer afford to take such a narrow view. The producers of poultry, eggs and livestock have a direct economic stake in farm policy development. We share a deep concern that past farm policies have been developed on a commodity-by-commodity basis with little or no regard for the effect of those programs on poultry and livestock producers or the consumers of our products. It is a fact worth noting that a substantial majority of gross farm revenues in this country come from commodities, like poultry, not directly covered or supported by farm programs. It is also significant that we in animal agriculture are the largest customers of U.S. producers of feedgrains.

The devastating impact of the 1983 Payment-In-Kind program on the poultry industry was the single event that convinced us that a change of direction in farm policy is important to our survival. We view the 1983 PIK program as the inevitable result of farm program failures in earlier years. We fear that history will repeat itself if our farm programs continue to rely on government intervention rather than market forces.

Farm programs in effect today are basically a continuation of programs and policies enacted over 50 years ago. However, agriculture in this country and throughout the world has changed dramatically over the same period of time. We believe there is ample evidence and a growing consensus that these agricultural programs and policies designd for the 1930's are not working well today. The new farm bill provides an opportunity to make some very necessary changes in America's farm policy for crop year 1986 and beyond.

Our purpose is appearing before this Committee today is not to endorse or support a particular bill but to discuss the direction or approach that we feel is needed for future farm policy. We endorse the principle of a market-oriented agriculture policy and commend both the Administration and Chairman Helms for recognizing that market responsive policies will best ensure a healthy and productive food system in years ahead.

We recognize that it is not feasible to achieve fundamental reform of a 50-year policy on a short-term basis. However, we urge the Congress to use the opportunity of the 1985 Farm Bill to move toward aligning current commodity programs with market realities. We are convinced that further delays in moving toward a market-oriented agriculture will prove costly and counter productive.

For many reasons we do not view the status quo as a viable farm policy option. As Chairman Helms pointed out in remarks accompanying the introduction of S. 616, there are two clear alternatives—one he refers to "as public utility agriculture" and the other as "market orientation." We agree with the Chairman's assessment that "current policy doesn't work, and a public utility agriculture can't achieve its objective any better."

In our view, the debate over future farm policy should not be over what direction it should take but rather how we should get there and how we can best achieve an orderly transition.

POLICY OBJECTIVES

The National Broiler Council has adopted the following specific agricultural policy objectives which we would like to see incorporated in the 1985 Farm Bill:

(1) *Price Supports* should not be set above market clearing levels. Although it may be desirable to protect farmers from unreasonably low prices, supports should not be used to shelter inefficient procedures. Commodity loan rates should be determined by a flexible, market-based formula to encourage producers to adjust to changing market conditions.

(2) The *farmer-owned grain reserve* was originally established as a supply assurance device, but its subsequent use has been to enhance prices. In order to avoid excessive accumulation of feedgrain stocks, a cap should be applied to limit the entry of eligible commodities. Release prices should be set at a more realistic level and sufficiently staggered to assure that supplies will be available to the market in an orderly manner when needed.

(3) *Two-tier pricing systems* for commodities that result in export prices are basically unfair to U.S. consumers and domestic users of agricultural commodities and should not be a part of the 1985 Farm Bill.

(4) Programs designed to benefit one commodity have an adverse impact on other commodities. A special effort should be made to avoid any action on behalf of a supported commodity that could prove harmful to non-supported commodities.

(5) Agricultural *exports* are an integral part of a market-based farm policy. Therefore, a strong section on agricultural exports should be included in any farm bill developed by Congress. As producers of a commodity which continues to lose its fair share of international markets, we hope that the trade title of the 1985 Farm Bill will offer some means for American producers to fight unfair and predatory trade practices engaged in by foreign competitors. The U.S. poultry industry has sought relief under current GATT rules and procedures to no avial. We need new trade negotiations, fair trading rules and improved dispute settlement procedures.

A responsible move toward market-oriented farm policies requires an orderly transition. We concur with the U.S. Chamber of Commerce that transition programs should meet the following minimal criteria:

(1) Their cost must be less than the programs they replace;

(2) They should be terminated at the end of an appropriate transitional period;

(3) They should include means tests or other mechanisms to assure that benefits are directed only to those truly in need; and,

(4) They separate income maintenance from price supports.

S. 744

Mr. Chairman, there is one other issue we would like to see addressed in the farm bill. Senator Cochran has introduced S. 744, currently drafted as an amendment to the Agriculture and Food Act of 1981, to provide protection for agricultural purchasers of farm proucts. Other members of this Committee are cosponsors of the legislation. It would protect good-faith buyers of farm products by deleting language currently in the Uniform Commercial Code that creates a so-called "farm products exception." This language treats the buyers of farm products differently from other buyers in the ordinary course of business, and says that if a farmer defaults on a loan for which he pledged a herd or crop as collateral, the lender has the legal right to seek repayment of the loan from the innocent first purchaser of that farmer's production.

NBC, along with 16 other national food and agriculture associations, strongly supports S. 744 as a reasonable approach to solving the problem of double jeopardy resulting from undisclosed crop and livestock liens. Procedures similar to those incorporated in the bill already work well for the nation as a whole. We urge Committee support for S. 744 when it is likely offered as an amendment to the 1985 Farm Bill.

SUMMARY

The poultry industry has a strong and vital interest in the development of agricultural and food policy legislation to replace the 1981 Act. Although we are not endorsing a particular bill, we strongly support market-oriented policies and recognize that an orderly transition is needed. We commend this Commitee for devoting the time necessary to hear the many voices involved in the farm policy development process. We are hopeful that the Congress will shape new farm policy appropriate for the future rather than continuing past policies that are no longer working well.

Finally, Mr. Chairman, we believe that a sound and balanced economic program—including reduced federal deficits, lower interest rates, and a continued low rate of inflation—is a necessary foundation for building a successful farm program.

[The following addenda were supplied by John Craig, see p. 444 for oral reference:]

THE CRISIS IN AMERICAN FOOD PRICES

Commodity	U.S. Avg. Mkt Price Jan. '81	Avg. cost of Production 1983	U.S. Avg. Mkt. Price Jan.'85	Change In $s & ¢	% Change
Wheat (bu)	$ 4.21	$ 3.95	$ 3.36	- 85¢/bu	-20%
Corn (bu)	$ 3.19	$ 3.53	$ 2.52	- 67¢/bu	-21%
Soybeans (bu)	$ 7.80	$ 7.80	$ 5.80	-$2.00/bu	-26%
Grain Sorghum (cwt)	$ 5.48	$ 6.61	$ 4.09	-$1.39/cwt	-25%
Cotton, Upland (lb)	76.9¢	83.9¢	57.0¢	-19.9¢/lb	-26%
Rice (cwt)	$ 13.20	$ 9.76	$ 8.14	-$5.06/cwt	-38%
Barley (bu)	$ 3.09	$ 3.11	$ 2.20	- 89¢/bu	-29%
Oats (bu)	$ 1.98	$ 2.61	$ 1.09	- 89¢/bu	-45%
Cottonseed (ton)	$126.00	*	$101.00	- $25/ton	-20%
All hay, avg. (ton)	$ 73.80	$ 61.17	$ 76.60	-$2.80/ton	- 4%-
Peanuts (lb)	49.2¢	22¢	24.4¢	-24.8¢/lb.	-50%
Potatoes (cwt)	$ 7.39	---	$ 4.83	-$2.56/cwt	-35%
Sweet potatoes (cwt)	$ 16.80	---	$ 15.60	-$1.20/cwt	- 7%
All milk (cwt)	$ 14.10	$ 13.40	$ 14.10	- ---	--
Eggs (dozen)	$ 64.8¢	---	52.8¢	- 12¢/cwt	-19%
Beef cattle (lb)	59.3¢	62¢	55.4¢	- 3.9¢/lb	- 7%
Steers & Heifers (lb)	64.3¢	---	62.4¢	- 1.9¢/lb	- 3%
Calves (lb)	69.2¢	---	59.4¢	- 9.8¢/lb	-14%
Cows (lb)	43.1¢	---	33.8¢	- 9.3¢/lb	-22%
Lambs (lb)	53.7¢	---	62.1¢	+ 8.4¢/lb	-16%
Sheep (lb)	25.9¢	---	19.5¢	- 6.4¢/lb	- 6%
Wool (lb)	91.0¢	---	72.0¢	- 19¢/lb	-21%
Hogs (lb)	40.8¢	46.9¢	48.4¢	+ 7.6¢/lb	-19%
Broilers (lb)	30.2%	---	28.5¢	- 1.7¢/lb	- 6%
Turkeys, live (lb)	39.8¢	---	60.5¢	+20.7¢/lb	-52%
Oranges (85-lb box)	$ 3.89	$ 3.64	$ 8.28	+$4.39/box	-113%
Grapefruit (80-lb box)	$ 3.00	$ 2.34	$ 4.19	+$1.19/box	-40%

SOURCES: U.S. Department of Agriculture, U.S. Bureau of Labor Statistics (As compiled by the Farm Crisis Committee, Emerson, Nebraska)

* Reflected in Cotton cost of production

ADDENDUM 1

Analysis of Retail Price Increases

BEEF

50 bushels of corn used to produce 1000 pounds beef*

$4.00	proposed domestic safety net price *
- 3.03	current government support price
$ .97	bushel increase in domestic corn
X 50	bushels of corn
$ 48.50	increase in cost of corn to produce 1000 pounds beef
- 1000	pounds of beef
4.85 ¢/lb.	increase in the retail price of beef

As of July, 1984, the average value of 1 pound of USDA choice beef at the retail level was $2.36½ per pound.

Assuming all 4.85¢/lb. is passed through to the consumer, this is a 2% increase on the retail price of beef.

* Hypothetical -- for purposes of example only.

SOURCES

1. Feed Situation Report; FDS-295
   United States Department of Agriculture
   Economic Research Service
   November, 1984.

2. Livestock and Meat Statistics, 1983
   Statistical Bulletin #715
   United States Department of Agriculture
   Economic Research Service.

3. Purdue University
   West Lafayette, Indiana

ADDENDUM 2

Analysis of Retail Price Increases

PORK

10 bushels of corn used to produce 200 lbs. pork*

$4.00	proposed domestic safety net price *
- 3.03	current government support price
$ .97	bushel increase in domestic corn price
X 10	bushels of corn
$9.70	increase in cost to produce 200 lbs. pork
- 200	lbs. pork
4.85¢/lb.	increase in retail price of pork

As of July, 1984, the average value of 1 pound of pork at the retail level was $1.62 1/5 per pound.

Assuming all 4.85¢/lb. is passed through to the consumer this is a 3% increase in the retail price of pork.

* Hypothetical -- for purposes of example only.

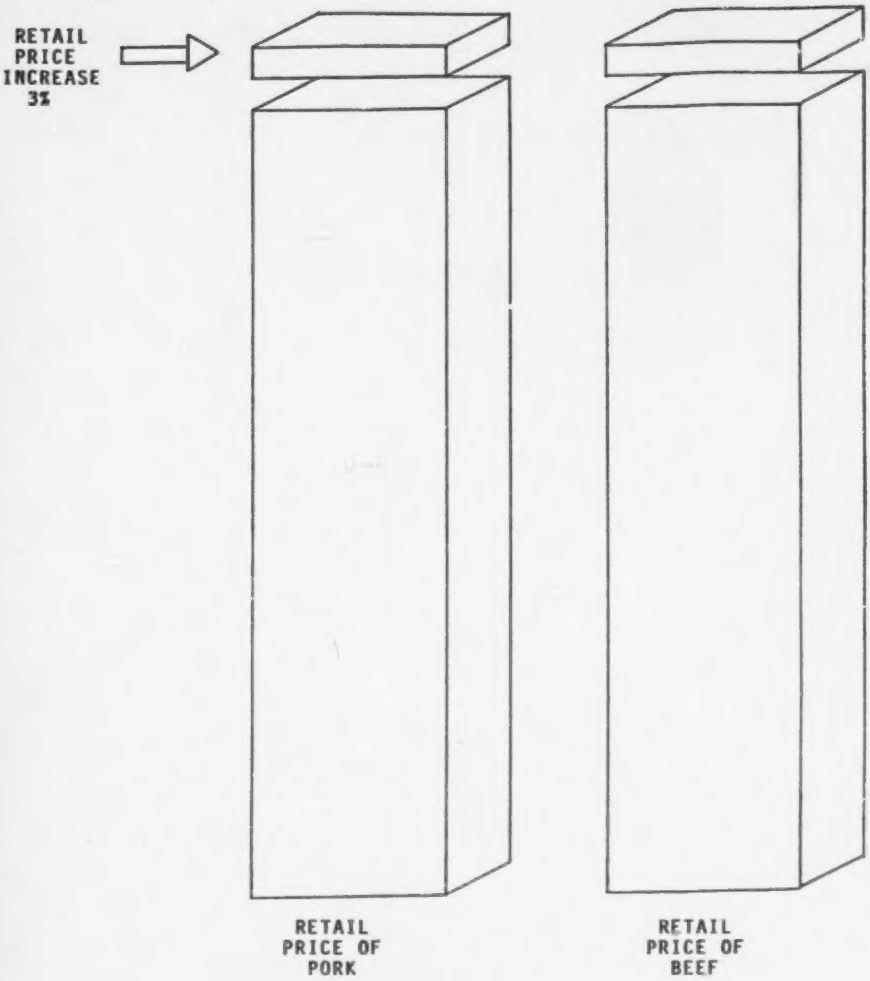
SOURCES

1. Feed Situation Report; FDS-295
United States Department of Agriculture
Economic Research Service
November, 1984.

2. Livestock and Meat Statistics, 1983
Statistical Bulletin #715
United States Department of Agriculture
Economic Research Service.

3. Purdue University
West Lafayette, Indiana

ADDENDUM 3



A 32% increase in the domestic price of corn results in a 3% increase in the retail price of beef and pork.

ADDENDUM 4

INCREASED TAX REVENUE TO THE U.S. TREASURY FROM U.S. GRAIN AND LIVESTOCK PRODUCTS

$ 144.00 billion	Gross Income
X 32%	Increase in price*
$ 46.08 billion	Increase in Gross Income
X 76.6%	Taxable portion of Increase**
$ 35.30 billion	Increase in Taxable Income
X 33 1/3%	Tax Rate
$ 11.8 billion	Increased Tax Revenue to the U.S. Treasury

* Hypothetical -- for purposes of example only.

** 23.4% of the increase in gross income will be used to pay interest and other tax deductable expenses.

Thus, 76.6¢ out of each $1.00 increase will be taxable income.

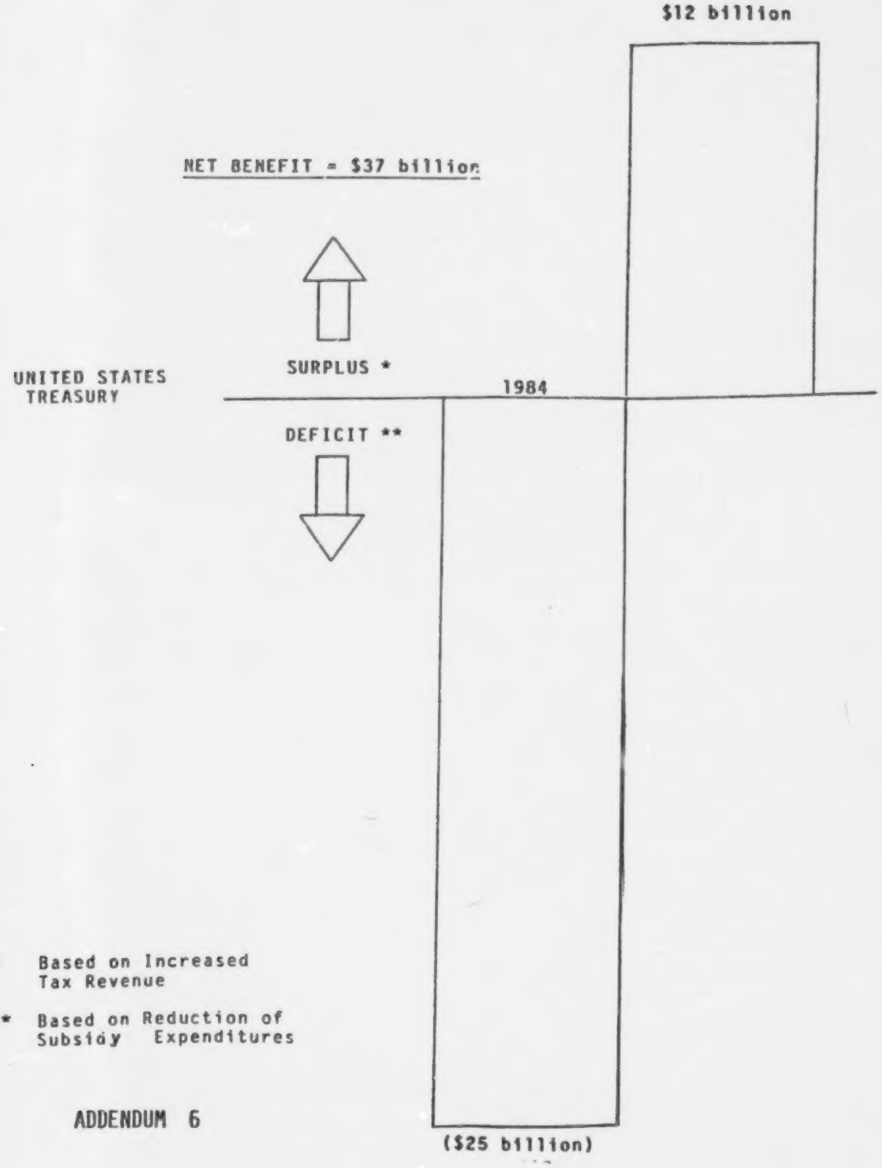
SOURCES

1. Feed Situation Report; FDS-295
United States Department of Agriculture
Economic Research Service
November, 1984.

2. Livestock and Meat Statistics, 1983
Statistical Bulletin #715
United States Department of Agriculture
Economic Research Service.

3. Purdue University
West Lafayette, Indiana

ADDENDUM 5



* Based on Increased Tax Revenue

** Based on Reduction of Subsidy Expenditures

ADDENDUM 6

ADDITIONAL ANNUAL SPENDING GENERATED IN THE ECONOMY

Farm expenditures have a "multiplier" of approximately 7. That is, every $1.00 a farmer spends in the private sector generates $7.00 of additional spending elsewhere in the economy.

$ 46.08 billion	Increase on Taxable Income
- 11.80	taxes paid to U.S. Treasury
$34.28 billion	
X 7.00	Multiplier
$239.96 billion	Additional Spending Generated in the Economy

ADDENDUM 7

STATEMENT OF MOST REV. IGNATIUS J. STRECKER, ARCHBISHOP OF KANSAS CITY, KANSAS, ON BEHALF OF U.S. CATHOLIC CONFERENCE AND NATIONAL CATHOLIC RURAL LIFE CONFERENCE

Mr. Chairman, I am Archbishop Ignatius Strecker, the Archbishop of Kansas City, Kansas. I am submitting testimony today in the name of both the U.S. Catholic Conference, the public policy and legislative arm of the U.S. Catholic Bishops, and the National Catholic Rural Life Conference. I am currently the President of the National Catholic Rural Life Conference. Let me first express my appreciation, Mr. Chairman, to you and to the other members of the Committee for the opportunity to appear before you on an issue of such critical importance.

I am appearing before your Committee this morning for three major reasons: (1) despite abundant crops worldwide, nearly half a billion people, mainly in the developing countries of the Third World, are chronically malnurourished and face a daily struggle to obtain even the inadequate amounts of food to sustain their lives; (2) in the malfunctioning international food system that should get these people fed on a sustained, self-reliant basis, the United States is the dominant power and should therefore accept major responsibility for action; and (3) the U.S. food system—both in the agricultural production segment and in the access of the poor and adequate diet—is in serious disarray and danger. These three points reflect three urgent and complex problems that we hope you will deal with in the course of debate and enactment of 1985 farm legislation.

INTERNATIONAL DIMENSIONS OF U.S. FOOD POLICY

The international scandal of hunger amidst plenty is brought most immediately and poignantly to our attention by the drought and famine in Ethiopia and other countries of Sub-Saharan Africa, where millions of people may starve this year because of adverse weather, unwise domestic policies in many food-deficit countries, poor coordination of international relief and development efforts, and the failure of the international community to comprehend the nature and extent of the threat of food insecurity that has afflicted those countries for more than a decade. In all of these casual areas, except perhaps for the weather, the United States shares some responsibility to help relieve the misery of the starving poor.

We have noted that the deepening tragedy in Ethiopia and other Sub-Saharan African countries has brought the hunger issue home to the people of this country more graphically and forcefully than at any time at least in the past decade. Millions of dollars in private funds have been raised in personal appeals for private agencies operating in that part of the world—including our own Catholic Relief Services, the principal foreign private agency operating in Ethiopia, and an intermediary for very significant donations for Africa.

Yet the situation in Africa, tragic and urgent as it is, runs the risk of distracting us, through our attention to the immediate requirements of charity from the longer-term needs of that continent—and, indeed, of the entire developing segment of this increasingly interdependent world. It was not only the unprecedentedly bad weather that caused the hunger in Africa; it was also—and probably more so—the inappropriate policies of those governments, the short-sightedness and wrongheadedness of many good-hearted foreign aid donors—including governments and international institutions—and the low priority accorded to Third World development by the major powers of the industrialized North. If we adopt a solely humanitarian-relief approach to these problems and move on to other matters when this situation is "solved," we can guarantee that the world will face this kind of problem again, if not in Africa, then somewhere else.

Nevertheless, now that our attention is caught by the African famine, it is entirely possible—and highly desirable—that the so-called donor community, together with the leaders of the affected countries, can come to an understanding of the longer-range problem of underdevelopment, of which the famine is a current manifestation. Remedial efforts for the short-run need to be undertaken in the context of a long-range strategy of development designed to help the poor people in these poor countries improve the quality of their lives and reduce their poverty and insecurity.

As we have emphasized consistently in testimony before committees of the Congress, we need to conceive and discuss the world food situation in terms of the demands of social justice, rather than exclusively in terms of humanitarian charity. The Congress some years ago passed a resolution affirming every person's right to food as basic to life itself. Five years ago a Presidential Commission on World Hunger avowed that the three reasons why the United States should care about world food security—moral, political and economic—the first should have primacy. The Commission even urged that this be a central focus of U.S. policy, especially toward the Third World. Multilateral conferences and international resolutions, in which the United States has participated—especially since the 1974 U.N. World Food Conference in Rome—have repeatedly pointed to the centrality of the food problem, urged increased aid to food-deficit countries trying to move toward self-reliance in food, and pledged their increasing support to those efforts. And still the United States has no overall food policy—and certainly nothing approaching one in current farm legislation.

Despite the dismal prospect for world food security at the current moment and the failure of the world community to fulfill its World Food Conference pledges, there have been two hopeful developments in the international community since the Rome conference. The first is the development, persistently pursued by the World Food Council (which the Conference created to monitor and coordinate follow-up), of the national food strategy as the preferred approach for achieving food security—combining production, distribution, consumption, and nutrition. The second is the creation of the International Fund for Agricultural Development, to focus on the effort to improve small-farm agriculture in food-deficit countries. Significant progress has been made in both these directions, but more is needed. Regrettably, the United States has not been in the forefront of these efforts, though it has participated in some measure.

We return repeatedly to what the United States needs to do, because in any international effort to improve security in food the United States is the most important single factor. Better policies by Third World governments are, of course, prerequisite, and the participation of other industrialized countries is important; but the participation of the United States is essential.

The Unites States is the world's largest producer, consumer, and trader of food. Nearly ninety percent of the food the world produces is consumed in the country in which it is grown; of the ten to twelve percent that moves from one country to another in trade or aid, roughly half starts in the United States. Powerful transnational corporations, based mainly in the United States, dominate the international trade in grain, the basic food staple. American farmers—though under increasing economic pressure—are still the most productive in history; every one of them feeds himself and about eighty othr people. One out of every three farm acres produces for export (one out of five for the Third World markets). U.S. food reserves are larger than the known reserves of any other country. With such enormous economic power, we believe, goes a commensurate responsibility for making the now malfunctioning international food system work for everyone.

The United States acts directly on that system in four ways—through commercial exports and imports, through food aid, through U.S. investment in and lending to food sector programs, and through development assistance to agriculture. Only the first two of these is within the direct purview of this Committee—though we believe all four should be linked in our policy priorities—and the last may be the most important from the standpoint of long-range impact on the international food system. It is essential, expert after expert and conference after conference have reminded us, that poor people in poor, food-deficit countries be enabled to grow or buy the food they need—that is the ultimate definition of food security. Unfortunately, as we have noted in other contexts, U.S. financial support for economic growth with equity in the Third World does not appear to be keeping pace with need.

An international program more directly of concern to this Committee, however, and in some measure to development as well, is food aid, the PL-480 program which celebrated its thirtieth anniversary last year. There is no question in our minds that millions of people are alive today who would not survived except for PL-480 (and other international food aid programs). Yet there are differences of opinion—and cogent arguments on many sides—among those who advocate food aid as both a relief and a development vehicle and those who fear that it will have a disincentive effect on local food production and/or create an undesirable dependency on outside food supplies (as has been the case in several countries.)

We concede that food aid has had such undesirable effects in some cases but we see no inherent reason why this should be so. In fact, the law includes several provisions expressly designed to prevent anti-developmental effects: Title I food programs (using concessional loans as the vehicle) are to be directed only to the poorest nations and are not available to governments guilty of consistent human rights violations; Title II programs (using U.S. private agencies or theWorld Food Program, in the main, as the vehicles) are required to be made available mainly to the neediest individuals in the poorest recipient countries and, wherever possible, for development-related projects. These requirements do not appear to have unduly constrained the operation of the program, and we would hope that they would be applied to any subsequent U.S. food-aid proposals, whatever the source of supply.

In our view, the major difficulty in PL-480 arises from the variety of purposes it has acquired over the years. Beginning with the two objectives of reducing the U.S. suplus of grain and helping to relieve hunger in some food-deficit developing countries, it has also acquired the goals of expanding U.S. agricultural trade, encouraging economic development in recipient countries, and promoting U.S. foreign policy. These objectives can be and have been contradictory in some situation and have unduly complicated both public perceptions of the program and its administration. Although the debate over goals and methods may appear to be less relevant in the current circumstances of urgent need in several African countries, we would hope that it will be that urgency, rather than the desire to get rid of market-depressing surpluses, that will motivate your ultimate decisions with respect to food aid.

The trade area, we acknowledge, is considerably more complex. Ever since the Soviet grain purchases of a decade ago eliminated U.S. reserves and prompted a massive increase in food production in the United States, earnings from agricultural exports have grown (leveling off only last year) to the point where the American farmer is heavily dependent on the international market. Increased production in Western Europe and in the other surplus-producing countries—Canada, Australia, and Argentina—together with the international recession and the growing indebtedness of Third World countries, has now begun to shrink that market. This phenomenon occurs precisely at a time, as we note in greater detail below, when American farmers are heavily in debt because of their earlier efforts to cash in on that export market, because land values (on which much of that debt was based) are declining, because the costs of production are outstripping the financial return, and because the social and ecological costs of domestic production increases are gaining recognition. The natural tendency of the producers and exporters is to inveigh against the "predatory export subsidies" of competitors, especially the European Communities, and to push exports even more vigorously. At the same time, for a different set of reasons, we ourselves limit the importation of processed agricultural commodities in order to protect domestic industries. We earnestly hope that the combination of real concern about farm income and real frustration about unfair competition will not prompt us to enter into a trade war in this sector—from which, in the long run, nobody will profit.

An all-out effort to push commercial exports too vigorously would, in our view, risk at least two very undesirable outcomes: The first is a grave depletion of the agricultural resource base, which by all accounts is already under growing and possible untenable stress. Topsoil is being lost at an alarming rate; and water resources—especially subsurface aquifers—are being drawn down faster than nature can replenish them. If the present pattern of international production and trade persist beyond the end of this century, with the United States continuing to provide nearly one-half of the world's food exports, the pressure on the U.S. agricultural ecosystem may very well prove to be intolerable.

Second, if the present trading arrangements move into a sharply more competitive mode, the impact on the structure of American agriculture may be profound. In fact, it could alter irreversibly the U.S. farm system as we know it and on which a good portion of our economic prosperity and success have been built. But in order to avoid such an outcome, we feel that the U.S. Congress should develop and adopt an overall food and agriculture policy and not permit the 1985 farm legislation, as in the past, to be little more than a compilation of unrelated commodity programs, deficiency payments, and subsidies, traded off by competing special interests.

U.S. AGRICULTURE

As pastors, rather than economists, we are concerned not only about the suffering of our brothers and sisters in the Third World who are malnourished, poor, sick, unemployed and desperate, but also—and in a way more immediately—about our food-producer parishioners and neighbors who are being hurt by the malfunctioning of a food system that is forcing ever larger numbers of them to lose the investment of a lifetime and give up a way of life that has been generally regarded as the foundation of American democracy and of the American economy.

Our nation's agricultural system is in a state of crisis. This system, which has made the U.S. one of the world's greatest food producers and on which the food security of many countries depends, is now in the throes of the worst farm recession since the Great Depression. The symptoms of this crisis include: high production costs, low commodity prices, declining exports, large surpluses, continuing high interest rates, falling values of farmland and machinery, increasing numbers of loan delinquencies and foreclosures, strains on the farm bank system, and a growing concentration of ownership of agricultural assets. Unless current policies and practices change, this crisis will continue. The changes that are necessary must go far beyond adjustments of target prices and loan levels. They require a very basic review of the structure of U.S. agriculture and of our entire food system.

As pastors we are more and more aware of the human side of this crisis and of the anguish many farm families suffer who depend on farming for their livelihood and who feel helpless in the face of developments which seem beyond their control. The actual or even potential threat of losing their farm causes severe stress and in many instances results in family problems similar to families who unexpectedly suffer unemployment after a long time on the job. The growing instances of divorce, spousal and child abuse, and suicide graphically demonstrate the severe human and social costs of this farm recession.

It is out of this pastoral concern for our families—people on whom we rely for so much of our food and fiber—that we urge policy makers to address some very fundamental questions about U.S. agriculture. This current crisis should be a catalyst for us to ask the deeper questions and make the changes needed for a healthier food and farm system. To ignore this task and settle for minor tinkering or for what looks like an easy way out will only forestall the day of reckoning and increase the more negative aspects of this current crisis.

Fundamentally we need to ask: what kind of agricultural system do we want? Do our current policies take into account long-term implications not only for that sector but for the general economic health of our society? If not, how do we get more attention to such considerations? At present no comprehensive food policy guides national programs for our food and farm sector or links the needs of producers, consumers, low-income people, and those abroad who depend on us. The first goal of this 1985 Farm Bill should be to develop such a policy that will address these diverse needs in a systematic and integrated way.

If the basic goal of the food system is to ensure an adequate supply of nutritious food to meet domestic and international responsibilities, then we must consciously structure our agricultural production system so that it meets that goal. The dramatic changes that are occurring in the structure of agriculture are due to a variety of factors. These include not only past farm policies in such areas as credit, taxes, and income and price supports, but also these include macoeconomic factors such as fiscal and monetary policies which determine interest and exchange rates. Likewise, rapid technological change has had a significant impact on agriculture.

Our concern is not with the fact of change itself in the U.S. food and agriculture system but rather with the fact that public policy seems to foster the more negative aspects of this change, especially the increasing concentration of ownership in that system. This growing concentration does not result solely from market forces. It is also due to policies which disproportionately reward large-scale agriculture. It also reflects the fact that current food and agricultural policy does not distinguish carefully among different kinds of producers according to their size and their need for support.

One result of these policies has been depressed prices and overproduction. If we continue to reward unlimited production by basing our support for programs on volume; if we fail to distinguish between the needs of the low-equity and the financially secure farmers and continue to dispense benefits on the basis of how much is owned, rather than on what is needed to operate, the current crisis will only deepen.

In a time of massive federal deficits and severe pressure for fiscal restraint, we believe that our overall farm policy ought to give the highest priority to medium-sized farms. Despite the rapid decline in the number of these farms in recent years, they remain an essential part of our farm economy. As a rule, these medium-sized farms are efficient in economic terms and resilient to changes in the overall economy. They make our farm system flexible, diverse, and capable of responding to outside economic forces. Increased concentration of agriculture with its high capital intensity, however, reduces the economic resilience of our overall food production system. Moreover, as the control of food production becomes more concentrated, there is a growing risk that it will become less responsive to the needs of consumers. Therefore, we believe there are sound economic reasons to suggest that public policy ought to help stop the decline in the number of moderate-sized farms.

Beyond the purely economic reasons, however, there are very important social reasons for ensuring that these moderate-sized farms do not disappear. The loss of family farms has a serious negative social impact on surrounding rural communities. As farmers leave the land, many businesses which depend on them close; and rural employment opportunities vanish. Fewer public services are available—and at a higher per capita cost. These losses have a detrimental effect upon rural communities, undermining their social and economic life.

Family farming is a way of life and a social institution that most farmers and rural residents with to preserve. Yet is present trends continue, this valuable and cherished institution will disappear. Our food production system will be controlled by fewer and fewer people. Many rural communities will be destroyed, and thousands of farm families will be forced, against their will, to leave the land.

Tax, price, income, and credit programs have helped to promote expansion and concentration in our farm sector. What is needed is not an adandonment of all these policy instruments, but rather to make sure that increased benefits are targeted to those medium-sized farm operations which need assistance. Government programs and support for agriculture are appropriate and necessary for food security on both the domestic and international levels. The guarantee of an adequate supply of nutritious food must surely be considered a major element in our security as a nation. We believe that by promoting an agricultural structure based on the small and medium-sized farm this guarantee of food security is enhanced in the long run.

The most immediate area of policy reform is credit. The present crisis is painful evidence of how badly we have misallocated farm credit. while many credit problems can be claimed on high interest rates, recent FmHA policies and practices also have contributed to the problem. In recent years the FmHA has shifted from its original purpose of providing farming opportunities for beginning and family-sized farms and loosed ever larger amounts to bigger farms to ease their financial expansion risks. As the primary federal agricultural lender, the FmHA should establish long-term programs which create and maintain farming opportunities for family-sized farms unable to secure credit elsewhere.

Although these practices have fueled legitimate public criticism of the agency, we vigorously support the FmHA in its basic function as a lender of last resort for beginning and family-sized farms. The current recession provides an easy temptation to initiate across-the-board farm debt relief, but we believe that any credit rescue operation should be targeted primarily to moderate and small-sized farms. We specifically support an increase in the loans available for limnited resource operators and for the farm ownership programs. At the same time, we favor reducing the size of loans per farmer available through the Economic Emergency Loan and Disaster Loan Program, if these programs are retained.

The second basic reform necessary to help preserve small and medium-sized farm should be a modification of our price and income support programs. Farm income support programs should be structured to benefit principally the owner-operators of moderate-sized farms who efficiently manage their own farms but who need some income protection. The benefits of such programs should be carefully targeted to those with greatest needs. Because such a program would cost less than the current program, the target prices could then be raised to levels which more adequately reflect costs of production. By limiting target price coverage to a sufficient volume of production to yield a fair income for each producing family, we not only can help assure the survival of family farms but we can help reduce the costs of farm programs.

For the longer haul, reform of tax policy is needed to dampen the trend toward consolidation of ownership and to reduce the incentive for nonfarmers to invest in agriculture as a tax shelter. However, because it is such an essential element in shaping the current structure of agriculture, we with to comment briefly on the way in which changes in tax policy could have a significant impact on helping to achieve a healthier farm economy. Tax policy is one of the more important, but least understood forces influencing the structure and productive output of agriculture. Farming offers tax shelters which reduce tax burdens or generate greater savings than comparable alternative investments. Farming decisions made on the basis of the tax code tend to attract investments which have the effect of lowering crop and livestock prices while increasing production in these areas. Agricultural tax benefits also have a roller coaster effect upon land prices, causing people to pay too much for farmland in boom periods and to risk loss of their equity in the bust part of the cycle.

Those who are able to take best advantage of the tax benefits receive a competitive advantage which allows them to gain a larger share of agricultural markets. Most often the distortions caused by these tax incentives fall hardest upon medium sized farms, because they do not have the high incomes or large investments necessary to take advantage of the tax breaks and incentives.

We urge this Committee to do all in its power to ensure that Congress and the Administration, undertake a careful and systematic examination of tax policy as it affects agriculture. Any reform effort should eliminate tax shelter farming and target agricultural tax advantages to moderate-sized farms.

A second policy that would help farmers in the longer run would be to encourage research and extension programs that would help farmers reduce costs without reducing yields. The effect of such research, which is already underway in a few places under private auspices, would be to reduce production costs immediately by decreasing the use of expensive inputs like chemical fertilizers, pesticides, motor fuel, irrigation water, and heavy equipment. There are farming technologies that would, if used more extensively, not only improve the farmers' economic position, but also help to preserve—and even improve—the resource base. Government encouragement of these approaches, together with a modest increase in funding, would have a long-range payoff on both counts.

STEWARDSHIP AND CONSERVATION

Another aspect of our food and farm policy that is of special concern to us is resource conservation. Agriculture involves the production of food and fiber through the conversion of natural resources, including solar energy, into food and other consumable items. Since each of these elements is vital for present and future food production, it is necessary that they be cared for and preserved with a deep sense of stewardship.

At its heart stewardship is concerned not only about sharing the earth's resources with our contemporaries, but, even more urgently, about preserving them for the future. In a very real sense, our present generation is not only using up resources built up through all past history, but is borrowing from our children's future to meet our present wants. Stewardship requires an ethic of respect and care for the land, water, minerals, and the air we breathe. These are God's gift to us intended not as private possessions for our exclusive use, but as an inheritance of which we are trustees.

The responsibilities of stewardship are especially important in our modern U.S. agricultural system. Agricultural production has doubled in the past thirty years in response to increases in domestic and foreign demand. As a result the entire agricultural resource base is under increased pressure. The fact that the United States has become the leading grain exporter is, in its own way, as much an economic "miracle" as the recovery of Europe and Japan after the devastation of World War II. But it has not been without costs—including environmental costs, which are rising to dangerous levels.

Agricultural production takes place on a layer of topsoil no more than thirty inches thick at its deepest point. Since the quality of this soil varies from region to region, it supports different kinds of agricultural uses—farming, forage for animals, forests, etc. Topsoil is gained and lost in a regular sequence; erosion is a natural phenomenon, which nature balances by building up the fertile layer from the bottom. Soil erosion thus is a natural process; but if the soil is overused, if responsible farming practices are not followed, if the soil is not "rested" from time to time—erosion can exceed the tolerable limits.

In the United States erosion now exceeds these limits on nearly a third of our productive cropland. The erosion problem and the resulting loss of productivity is compounded by the fact that is is concentrated on one-tenth of the roughly 400 million acres of cropland in the United States. This erosion caused by wind and water removes over five billion tons of topsoil a year.

Another cause for concern is the large amount of agricultural land that is being converted to non-agricultural uses. The rate of conversion has been about three million acres per year. Approximately one million of these acres are prime farmland. For all practical purposes the loss of this land to agriculture is irreversible, because most of this land is converted for housing developments, shopping malls, recreational usage and highways. If the current rate of land conversion continues, it could have a serious impact on the economic and environmental costs of producing food in future years.

Water is another essential element of agricultural production. Crops can be grown without land, but never without water. The United States is blessed with abundant supplies of water—surface water (rivers and lakes), subsurface water (aquifers), and rainfall. Although no more than 20 percent of U.S. crops are grown on irrigated land, agriculture is by far the nation's largest consumer of water. Irrigation, which has doubled in the last twenty years, accounts for over 80 percent of all water consumed and nearly 70 percent of all stored water (in underground aquifers) withdrawn in the United States. This withdrawal is occurring at a rate greatly exceeding natural recharge in some regions of the country, especially in those semi-arid Western states where irrigation has become widely used. There is also increasing competition for water from municipalities (city water and sewer systems), industry, and transportation (as in the case of the proposed pipelines for coal slurry). In addition to the concern for the volume of water used, there is also a serious problem of pollution from chemical runoffs and siltation from agriculture.

These pressures on the agricultural resource base have resulted in part from the dramatic increase in agricultural exports, particularly grains, to Europe, Japan, and the Third World. The prospect of profits from this trade has prompted many farmers to abandon the conserving practices of the past (like terracing, fallowing, wind breaks, etc.) to bring marginal and usually very erodible land into production, to saturate this soil with chemical fertilizers, pesticides, and herbicides, and to use increasingly sophisticated, energy-intensive machinery to increase yield.

It is precisely with respect to this urge for ever-increased production that the question of stewardship needs to be raised. An appreciation of our trusteeship of agricultural land would seem to dictate a caring and sparing use of these resources which we must pass on—undamaged, and preferably regenerated—to future generations.

Although there are currently some federal programs aimed at improving conservation, we believe that an important part of national farm legislation should be an overall coordinated agricultural resource conservation policy. There does not exist the kind of overall coordinated policy that is required. Conservation goals, unlike some other policy priorities, are quantifiable; they could be built into regulations governing production. There should be incentives and rewards to farmers who convert erodible soils to more tolerable uses and disincentives for those who cultivate crops on such soils. Federal policy should also encourage farmers to participate in a conservation reserve and other conserving practices. These two policies could be modeled upon the sodbuster and reserve proposals made before Congress last year and almost adopted as law. Any measures adopted should discourage conversion of prime farmland to nonagricultural uses. Such action would be prudent in not only a moral, but an economic, sense. Preserving and improving our natural inheritance is not only an exercise of our moral responsibility to practice stewardship, it also makes economic sense over the long term by enhancing some of our most basic economic assets.

DOMESTIC FOOD ASSISTANCE

We began our testimony with a reminder of the haunting specter of severe and chronic hunger overseas. We close with a call for strengthening our domestic food assistance programs which make up the safety net against hunger in our nation. The cruel reality of hunger and malnutrition is a grim fact of life for too many Americans. Although this issue is no longer on the front pages of our newspapers, the evidence of hunger in our midst and the dramatic increases in the demand for emergency food assistance must be a source of grave concern to all of us, and to our nation's policy makers in particular.

A variety of reports, including information from the U.S. Conference of Mayors as well as the National Conference of Catholic Charities, confirms the fact that hunger and the demand for emergency services continue to be serious problems. The rates of unemployment and poverty remain unacceptably high, and while broader economic policy changes are needed to address the root causes of these problems, it is also imperative that we maintain and improve our food assistance programs. It is for this reason that we have such a vital interest in the policies and programs adopted for the Food Stamp Program.

In the Catholic tradition of social teaching the right to eat is considered a fundamental human right, one linked to the right to life itself. When we address the question of public policy on nutrition programs, then, we are not speaking of feeding people out of our largesse or as a matter of privilege. Rather it is a matter of social justice and basic human rights. This concept of rights implies a social obligation, and ultimately, an obligation on the part of government. When, through the normal workings of the economy and the social system, the basic material needs of some citizens are not met, the government has the responsibility to intervene. It has the duty to see that no one goes without adequate food and other basic necessities. We believe that the federal government has the ultimate responsibility to see that this does not happen.

The development of food programs such as Food Stamps, the WIC Program, the School Breakfact and Lunch Programs, and the Commodity Supplemental Food Programs, at the federal level, have marked the commitment of this nation to ensure an adequate diet for all our people. This is particularly true of children, the elderly, and women, who comprise the majority of the poor and who are most vulnerable in our society. In the past these programs have been, by and large, quite successful in eliminating the scourge of hunger and malnutrition.

Recent cuts enacted in these programs have had a severe impact on the poor and have threatened to reverse the historic success of these programs in reducing hunger. We see a direct relationship between the cuts in federal food assistance program benefits in the past few years and the increased need for emergency food aid from our diocesan and ecumenical programs.

We understand that nutritionists originally designed the maximum food stamp benefit to provide minimum levels of nutrition to healthy people for brief emergency periods. However, those levels are so minimal that whole families already receiving food stamps sometimes line up for meals in our soup kitchens when their monthly allotments of food stamps run out mid-way in the month. Many parents are forced to ask for help when their wages from even full-time jobs are inadequate to meet the costs of rent, utilities, clothing, and other necessities for their children. Many of those families used to be eligible for food stamps and other benefits until the cuts that took effect in 1982.

Food stamps are a vital ingredient in meeting the special nutritional needs of those most vulnerable in our society: low-income pregnant women, children, and the elderly and disabled. Congress has authorized other targeted food programs to address specific nutritional needs, as in the Commodity Supplemental Food and WIC programs where pregnant women, new mothers and their children receive prescribed foods to counter the anemia and other deficiencies diagnosed by trained professionals. The child nutrition programs also help to supplement the gaps left in the diets of poor children, for whom food stamp levels by themselves are inadequate to ensure healthy growth.

We urge the Congress to continue the present design of these programs that permits targeted aid to supplement the more general food stamp aid available to poor families. Any reduction in one program on the grounds that other aid is available would undermine the favorable interaction of the programs which supplement but do not duplicate each other.

A number of reforms are needed if the Food Stamp Program and the other basic nutrition programs are to serve the purpose for which they were established—namely to provide adequate nutrition assistance for the nation's needy poor. The first needed reform is to restore the entitlement nature of the Food Stamp Program. The Food Stamp Program is the basic delivery system for food assistance in this country. To adequately meet the need, the entitlement feature of the program needs to be restored and appropriation and authorization caps on funding for the program needs to be removed. They create unnecessary administrative problems, particularly when supplemental funding is required. An entitlement feature also creates the stability needed so both state administrators and recipients know what to expect. Subjecting the program to yearly administrative and program changes only increases mistakes and hampers effective delivery.

We are also particularly concerned with the plight of the homeless. There are currently an estimated 2.5 million homeless people. While they are eligible by law for Food Stamps, current state practices and the lack of enforcement by the USDA have the effect of preventing most of the homeless from receiving the benefits to which they are entitled by law. We urge this Committee to mandate that states find ways of distributing food stamp benefits to the homeless.

Part of the rationale espoused for cutting the Food Stamp Program has been the emphasis on the obligation of families to be self-supporting. On its own merits this appears to be a reasonable and laudable goal. However, the fact is that nearly all of the families on food stamps are headed by a low-wage earner, a person looking for work, or a person unable to work outside the home. Yet, legislative proposals continue to be introduced which are designed to compel people to search fruitlessly for work or to work for wages in exchange for their food stamp benefits. The complexities of such requirements are likely to result in delayed or denied aid to families very much in need of help.

Mandatory workfare rules have proven to be unworkable and both workfare and mandatory job searches have been shown to be ineffective in helping people secure paid employment. These proposals coupled with reduced work incentives such as the cutback in work related deductions, no effective child care deductions, and the gross income test, deny benefits to households with net incomes below the poverty level. Certainly job assistance and training should be available to those who need it. However, the Food Stamp Program should not be the vehicle to accomplish this goal. Rather it should retain its focus on providing nutrition assistance.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

The Commodity Supplemental Food Program has a solid record of improving the health of low-income pregnant women, infants and children. The positive results of the program are particularly striking among those most at risk because of such factors as age, poor health, and nutrition or inadequate pre-natal care. Two of our Catholic dioceses, in Detroit and New Orleans, have been very involved in the operation of these programs and testify to their success. We believe that CSFP is a necessary adjunct to the WIC program which is inadequately funded to meet the needs of even the poorest pregnant women and their young children.

We urge the Committee to continue the CSFP at higher levels of funding, with requirements for outreach and additional assistance from USDA to communities that do not already have the program.

CONCLUSION

The purpose of this testimony has been to call for a comprehensive U.S. food policy, which links in a responsible manner the interests and needs of U.S. farmers and consumers, our food trading partners, and the special and urgent needs of the hungry abroad and domestically. Moral argument is always a reasoned process appealing to both the minds and hearts of people who have to decide serious questions. There is hardly a more serious question in the human community today than the sacredness of life with the sacred resource of food. It is our hope that both our arguments and our proposals aid the process of shaping a just and generous U.S. food policy.

STATEMENT OF REV. KENNETH WITTROCK, REPRESENTING LUTHERAN COUNCIL IN THE USA

Mr. Chairman, my name is Rev. Kenneth Wittrock. I am testifying today on behalf of the Lutheran Council in the USA which represents three church bodies; the American Lutheran Church, headquartered in Minneapolis, Minnesota, with 2.4 million members in 4,900 congregations, the Association of Evangelical Lutheran Churches, headquartered in St. Louis, Missouri, with 109,000 members in 273 congregations, and the Lutheran Church in America, headquartered in New York, New York, with 3 million members in 6,100 congregations.

Lutheran churches represent a larger percentage of midwestern farmers than perhaps any other mainline denomination. But we are testifying today not to advocate solely for farmers, many of whom are in the midst of an economic dilemma that parallels the Great Depression. Our intention is to signal for members of this committee some of the far-reaching effects of the current economic crisis in agriculture and rural communities.

I am pastor of two rural parishes in Northeast Nebraska. In our part of the state, farmers grow corn, soybeans, cattle and hogs. I live in Pilger, Nebraska, population 400 and falling. I emphasize population because we are desettling rural Nebraska. This process is not just happening. It is being legislated, largely by federal government policies. This is the same government which claims in earnest, I believe, to support family farm agriculture. It is paradoxical, but I think it is true. The U.S. government's spending policies, tax code and farm programs strongly, and negatively, impact the family farm system and rural America in general. These policies have given us larger farms, dramatically fewer farms and fewer farmers. My comments today refer most specifically to the Structure of Agriculture section of the 1985 Farm Bill because the churches I represent are deeply concerned about who owns U.S. farmland and who produces our food.

Nebraska has lost nearly half of its farms in the last 40 years and the farm population has decreased by 56 percent. From 1978 to 1982, we lost 5000 farms. Current statistics indicate that young people are not choosing farming as a career and that farmers remaining in business are increasingly older men and women. Of the approximately 60,000 farms remaining in Nebraska, over 23,000 are operated by persons over the age of 55. Farms operated by persons under age 45 now number 1000 less than in 1974, despite the entrance of beginning farmers in the 1970's.

Farms that remain in operation in our state are getting bigger. Between 1969 and 1982 only farms of 1000 acres or more increased in number. Farms of 2000 acres or more increased by 55 percent. All small or medium size farms (from 100 to 1000 acres) decreased in number.

A study by Dr. Larry Swanson, former director of the University of Nebraska's Office of Policy Studies, shows direct negative correlation between farm size and conditions in rural communities. Because farmers and their families provide the social and economic basis for rural communities, their leaving the land has an impact on all businesses, social services and other community functions including the rural church. With a decreasing population there is less need for teachers, ministers, doctors, retailers and implement dealers. With reduced employment, income and property valuations, the tax paying ability of the community becomes inadequate to support schools and other public services. This results in a greater tax burden and reduced quality of life for those who remain in the disintegrating rural communities.

There is also widespread personal fall-out from failed farms and dying rural towns. A Kansas study found that seven of the ten Kansas counties with high divorce rates in 1981 were rural, as were nine of the top ten counties with confirmed cases of child abuse. Farmers who see no way out of their financial dilemmas and for whom other career options in remote rural areas are limited are committing suicide in record numbers. In Missouri the suicide rate for farmers is higher than for any other single occupation. The ten Kansas counties with the highest suicide rates in 1980 were rural.

It is in the midst of these intense symptoms of personal stress and community deterioration that the church plays its classic role of counselor, provider of emergency food and shelter, supporter of persons in pain. Our resources are limited and our response is inadequate relative to the need in the countryside, but our call to pastoral care is clear.

In this crisis, pastoral care and emergency aid are not enough. Because of the pervasive impact the current economic crisis in agriculture has on the entire United States social and economic fabric, the church as an institution is obligated to respond more wholistically. We are seeing the human costs of past and present federal political and economic decisions that have led to consistently low farm prices, high interest rates, insecure export markets and that have fueled the international debt crisis. We question whether a nation defining itself as generous can permit the burdens of these decisions to be borne disproportionately by farmers—less than 3 percent of the total population—on behalf of all who benefit from their labors.

Lutheran bishops of all national and regional jurisdictions of the three church bodies represented by this testimony have endorsed a statement on the "Agri-Community Crisis" which outlines directions for U.S. farm and food policy that are consistent with Christian principles of social and economic justice and the stewardship of creation. A copy of that statement is included with this testimony.

We call on the Congress to develop national policies that would protect the rights of farmers and all those who depend on their production skills, including the hungry in the United States and abroad. Central to these policies would be goals of:

An adequate supply of safe and wholesome food at affordable prices for those able to pay, subsidized for those without adequate resources;

Development of economic policies that foster strong growth in the export market, while not creating a disincentive for the agriculture of developing countries;

Fair prices and legal protections for farmers and farmworkers;

Prudent and effective stewardship of land and other natural resources;

Equitable access to and widespread distribution of farmland and other production assets; and

Short term farm debt relief by making adequate funding available and by the lowering of interest rates.

Agriculture, like politics and economics, is neither morally nor theologically neutral:

Conservation is a means of implementing the stewardship of God's creation;

Caring for and feeding the hungry is a biblical imperative;

Supporting the people who produce our food is not only just, but it makes good sense.

Advocating for family farm agriculture, the communities which it fosters, the infrastructure which it grounds is not merely the preservation of a national treasure—but an investment in the future of a growing and ever-hungry planet. It is not nostalgia that prompts concern, but necesity. Policies which enable small and medium size producers to remain in agriculture sustain local churches, schools, hospitals and small businesses as well as farm production units.

We have created the current condition in rural America. It is like an eroding field. It is unthinkable that we might consider walking away and leaving a highly erodible situation to the vagaries of change and the vicissitudes of the market. It is our responsibility to replant, to restore, to correct the mistakes of the past and to plan a just and diversified food production system for the people of the agri-community, the nation and the world.

STATEMENT OF LUTHERAN BISHOPS ON AGRI-COMMUNITY CRISIS

(Lutheran Church in America, the American Lutheran Church, and Association of Evangelical Lutheran Churches)

As Lutheran church leaders, we are seeing large numbers of farm families threatened by the strangling economic circumstances of our times. Experts predict that 80,000 farmers nationwide may go out of business in 1985; in midwest states some 10 to 25 percent will lose their farms this year. An estimated drop of $5 to $10 billion in net farm income in 1985, coupled with a projected 5 percent increase in expenses will make it economically infeasible for many to remain on the land in the future.

In the midwest, agriculture remains the foundation of the economy and of social and political institutions. Our rural churches and the communities in which they exist are being profoundly affected by rural economic decay. But the effects of an increased incidence of farm failures are far more pervasive than what is obvious in the countryside. Current economic indicators that meter an upswing for the U.S. economy have not adequately forecast the link between failed farms and the entire food industry, between farmers' decreased purchasing power and its effects on all agriculture related businesses. Such positive indicators do not reveal how farmers' inability to afford their collective existing debt affects rural banks and in turn poses a great danger to the national financial system.

In the midst of this intensifying rural crisis, churches are being called upon to provide assistance to families currently living with the personal residue of economic stress. Our resources are limited and our response is inadequate relative to the need but our call to pastoral care is clear.

As leaders in the church, we also are obligated to respond to this crisis more wholistically. Recognizing its historical context, we are aware of the role of federal laws, regulations and policy decisions in helping to frame the current economic picture. U.S. management of the domestic food supply, international trade agreements and interest rates has fueled both the debt crisis and the consistently low level of farm prices. Seeing the human cost of such economic and political decisions, we question whether a nation defining itself as generous can permit these burdens to be borne disproportionately by some of us on behalf of all of us.

At a time when federal farm and tax policies affecting agriculture are being debated by the U.S. Congress, we must, as Christian leaders and responsible citizens, address the roots of this crisis in the countryside and advocate for changed policies that would both ease current financial dilemmas and restructure and refocus farm related programs.

We therefore respond with dismay to the Reagan Administration proposals for agriculture that would withdraw government support from an industry that is in the midst of a financial crisis paralleling that of the Great Depression. We object to administration proposals that would:

At this time cut farm price and income support programs and base payment on market prices rather than the cost of production. By excessive reliance on a free market philosophy in agriculture, we believe the federal government would be avoiding its responsibility to provide essential direction to balance production of farm commodities with the demand for them;

Pare down the federal commitment to the Farmers Home Administration by withdrawing from credit programs for low income and beginning farmers. This would further restrict the base of land owners and make farming an economic impossibility for those for whom the government is the designated lender of last resort, including many minority farmers;

Reduce federal support to conservation projects. We see this as a short-sighted means of cutting government spending. Preservation of food producing resources for future generations is not only in the farmers' economic self-interest but in the general public interest. We believe the public should share the economic burden.

We call on the Congress to develop instead a national farm and food policy based on principles of economic justice that would protect the rights of farmers and all those who depend on their production skills, including the hungry in the U.S. and abroad. Central to this policy would be goals of:

An adequate supply of safe and wholesome food at affordable prices for those able to pay, subsidized for those without adequate resources;

Development of economic policies that foster strong growth in the export market, while not creating a disincentive for the agriculture of developing countries;

Fair prices and legal protections for farmers and farmworkers;

Prudent and effective stewardship of land and other natural resources;

Equitable access to and widespread distribution of farmland and other production assets; and

Short term farm debt relief by making adequate funding available and by the lowering of interest rates.

In the longer term, we urge the Congress to renew its commitment to a viable, efficient, resilient, diversified, productive, widely dispersed and primarily owner-operated family farm system of agriculture. To underscore this commitment, Congress should express its intent to eliminate or minimize public policy incentives to farm consolidation, nonfarm investment in agricultural resources, economic concentration and production specialization.

As specific farm programs, economic and tax policies are being debated in light of the serious federal deficit, we ask members of Congress to consider alternative means of government involvement in the farm sector rather than indiscriminate withdrawal. We recognize the high cost of current farm subsidies and support program restructuring that would carefully target benefits to farms that need them most—those currently in the most serious financial trouble, particularly moderate sized family operations. Therefore, we affirm the need for a financial cap. Such targeting of benefits should also be implicit goals of government farm credit, research and extension programs and the U.S. tax code as it relates to agriculture.

In light of our responsibility as Christian leaders to carry out the scriptural imperative toward care of God's creation, we believe that long term stewardship of soil, land, water and energy resources should be an integral part of all farm programs. We support the creation of a natural resource conservation policy as part of the 1985 Farm Bill and suggest that specific soil conservation requirements be made part of all acreage reduction programs, that federal farm program benefits be denied operators who plow up highly erodible land, and that a permanent conservation reserve be established to protect highly erodible soil.

Long-standing Lutheran involvement with the systemic injustices at the root of world hunger stands as a cornerstone to our commitment to food security at both the international and domestic levels. We believe that world food security should become a central goal of U.S. food policy as a means of fostering international prosperity, stability and cooperation.

Bishop James R. Crumley, Jr., Lutheran Church in America
Bishop Will L. Herzfeld, The Association of Evangelical Lutheran Churches
Bishop David W. Preus, The American Lutheran Church
Bishop John Adam, Slovak Zion Synod, LCA
Bishop Dennis Anderson, Nebraska Synod, LCA
Bishop Darold H. Beekmann, Southwestern Minnesota District, ALC
Bishop Thomas L. Blevins, Pacific Northwest Synod, ALC
Bishop K. Bernell Boehm, Ohio District, ALC
Bishop L. David Brown, Iowa District, ALC
Bishop Herman W. Cauble, South Carolina Synod, LCA
Bishop Herbert W. Chilstrom, Minnesota Synod, LCA
Bishop Edelmiro Cortes, Carribbean Synod
Bishop Norman D. Eitrheim, South Dakota District, ALC
Bishop Lowell O. Erdahl, Southeastern Minnesota District, ALC
Bishop Paul E. Erickson, Illinois Synod, LCA
Bishop Roger J. Gieschen, Central States Synod, LCA
Bishop James A. Graefe, Metropolitan New York Synod, LCA
Bishop Walter W. Grumm, Pacific Regional Synod, AELC
Bishop Lawrence L. Hand, Southeastern Pennsylvania Synod, LCA
Bishop Wesley N. Haugen, Eastern North Dakota District, ALC
Bishop Harold L. Hecht, English Synod, AELC
Bishop Franklin C. Heglund, Rocky Mountain Synod, LCA
Bishop Raymond A. Heine, Michigan SYnod, LCA
Bishop Robert Herder, Northern Wisconsic District, ALC
Bishop Reginald H. Holle, Michigan District, ALC
Bishop E. Harold Jansen, Eastern District, ALC
Bishop Herluf M. Jensen, New Jersey Synod, LCA
Bishop Ralph A. Kempski, Indiana-Kentucky Synod, LCA
Bishop Gilbert M. Lee, Northern Minnesota District, ALC
Bishop Harold R. Lohr, Red River Valley Synod, LCA
Bishop Clifford R. Lunde, North Pacific District, ALC
Bishop Kenneth R. May, Western Pennsylvania-West Virginia Synod, LCA
Bishop Howard J. McCarney, Central Pennsylvania Synod, LCA

Bishop Michael C.D. McDaniel, North Carolina Synod, LCA
Bishop Virgil A. Moyer, Jr., Virginia Synod, LCA
Bishop Stanley E. Olsen, Pacific Southwest Synod, LCA
Bishop Ehme R. Osterbur, Illinois District, ALC
Bishop Edward K. Perry, Upper New York Synod, LCA
Bishop Rudolph P.F. Ressmeyer, East Coast Synod, AELC
Bishop Kenneth H. Sauer, Ohio Synod, LCA
Bishop A.C. Schumacher, Southern Wisconsin District, ALC
Bishop Martin J. Schumacher, Western North Dakota District, ALC
Bishop Robert H. Studtmann, Southwest Regional Synod, AELC
Bishop Nelson W. Trout, South Pacific District, ALC
Bishop Gerald S Troutman, Southeastern Synod, LCA
Bishop Philip L. Wahlberg, Texas-Louisiana Synod, LCA
Bishop Harold S. Weiss, Northeastern Pennsylvania Synod, LCA
Bishop Wayne E. Weissenbuehler, Central District, ALC
Bishop August E. Wenzel, Southern District, ALC
Bishop Paul M. Werger, Iowa Synod, LCA
Bishop Norman G. Wick, Rocky Mountain District, ALC
Bishop Robert S. Wilch, Wisconsin-Upper Michigan Synod, LCA
Bishop Harold R. Wimmer, New England Synod, LCA
Bishop David A. Wolber, Southeastern District, ALC
Bishop Royall A. Yount, Florida Synod, LCA
Bishop Morris B. Zumbrun, Maryland Synod, LCA

STATEMENT OF DON REEVES, REPRESENTING INTERFAITH ACTION FOR ECONOMIC JUSTICE

I am Don Reeves, a grain and livestock farmer from Merrick County, Nebraska. I am a consultant to Interfaith Action for Economic Justice and appear on its behalf.

Interfaith Action for Economic Justice is a coalition of national Protestant, Catholic, Jewish, and ecumenical agencies. Formerly known as the Interreligious Taskforce on US Food Policy, we have appeared before this committee on numerous occasions during the past ten years to discuss farm and food policy. We welcome this opportunity to present our recommendations to the committee.

Our member agencies have a long history of involvement in farm, rural, food, and antihunger policy. Key aspects of this engagement have been and continue to be support for a widely dispersed family farm system of agriculture, strong rural communities, responsible resource stewardship, responsive domestic food assistance available to all in need, and a significant US contribution to world food security. Based on these major concerns, we support farm and food policies that would help assure:

Equitable access to and widespread distribution of farmland and productive assets;

Fair returns and legal protections for farmers and farmworkers;

Long term sustainability of all food producing resources;

Healthy rural communities and broadbased rural development;

Adequate, stable supplies of safe and wholesome food;

Access to adequate food and nutritious diets by all segments of the population; and

Equitable agricultural development and food security in other countries.

In the midst of the continuing farm crisis, extraordinary efforts are being made by religious agencies at several levels. Many rural congregations have become deeply involved in both pastoral responses to the personal, family, and community crises and in farm and rural policy advocacy. Many denominations have been instrumental in organizing state-level crisis response networks. One of several national efforts is the new Family Farm Project established under the auspices of Interfaith Action and its Food and Agricultural Policy Work Group.

OUr statement today will highlight our concerns with respect to many of the major farm bill program areas. Appendices are included to more fully detail our proposals.

Family farm policy

In 1977 and again in 1981, Congress reaffirmed as US policy a commitment to "foster and encourage the family farm system of agriculture." Interfaith Action likewise endorses the principle of widespread ownership of farmland by resident families. Based on this fundamental principle, we believe there is an urgent need for basic reform in a variety of agriculture-related programs, most notably commodity and credit programs, tax laws, and research priorities. It is our firm belief that these programs as currently consitiuted contribute to the destruction of the family farm system at huge social costs and no economic gain.

Hence, we feel that this section of law should be reauthorized and strengthened. In addition to the family farm policy language, Section 102 of the 1977 Act also requires an annual report on the status of the family farm, including an assessment of how federal laws affect the structure of agriculture. Both the policy language and the reporting requirement should be continued.

Congres should improve the policy language by declaring as a goal the renewal of an efficient, diversified, and widely dispersed family farm system of agriculture. With respect to the status reports, a series of indicators should be established to measure the social, economic, and financial structure of agriculture and agricultural communities and their interrelationships.

Appendix A includes specific suggestions for strengthened policy language, research, and reporting.

Rural communities

While casual observation and the long history of town and country ministry support the contention that the economic organization of agriculture has a direct bearing on the quality of rural community life and vice versa, relatively little research exists on the subject. The work that has been done supports strongly the common perception: it does make a difference whether agriculture is based on moderate-sized family farms, larger than family-sized farms, or absentee-owned farms. Studies have shown that both large-scale and absentee agriculture are associated with low levels of retail sales outlets, low business volume, low levels of community service availability, inadequate public financing, high levels of inequality, and low community cohesiveness.

The research title of the farm bill should establish a new initiative to study the relationships between the structure of agriculture and the social and economic health of rural communities. Such research could be done under the auspices of the Economic Research Service, which could coordinate research in various regions of the country through the Cooperative State Research Service.

Some specifications for such a new research initiative are included as Appendix B.

Commodity programs

Income support

Interfaith Action believes that commodity programs should provide moderate-sized family farm operators with the opportunity to earn a fair labor and management income from well-run farms of sufficient size to achieve most economies of scale. However, from both a family farm system perspective and a budget perspective, programs need to be focused and targeted. Incentives and subsidies to farm expansion and nonfarm investment in agriculture should be eliminated. In this period of budget constraint, indiscriminate, across-the-board subsidies are no longer acceptable.

By the same token, however, freezes or reductions in income support levels would deny basic family income opportunity and security to many producers and cause an increasing number of farm failures. In our opinion, there is a viable and responsible alternative to cutting costs by cutting program protection, namely loan and target price limitations and strict eligibility requirements.

The payment limitation concept in current law is seriously flawed for at least two reasons. First, it is far too high to be effective. According to the Senate Budget Committee, only half of one percent of all producers were affected in 1982. Second, it is inequitable among commodities in a given year and from year to year for a given commodity.

Thus, the proposed budget resolution item to reduce the limitation to $25,000 while a step in the right direction, remains flawed. It would not solve the two problems noted above. Moreover, it is packaged with decreases in target price levels. Hence, the proposal would more strictly focus a disappearing benefit.

We propose an alternative that would maintain and improve basic farm income security and simultaneously reduce budget outlays. In summary, this alternative would:

Raise target prices to more adequately reflect cost of production plus a reasonable management return;

Adjust these levels regularly for actual and projected costs;

Limit coverage to a sufficient volume of production to yield an income per family equal to national median family income; and

Exclude from eligibility producers with high nonfarm individual or corporate income.

Such a program would be more meaningful and more equitable. It would also save significant sums of money compared with current services. The savings, however, would not come at the expense of family farmers struggling to survive. Beyond reasonable limits, producers would be ineligible for additional public support and would rely solely on market forces. Moreover, strict limitations and eligibility criteria would substantially remove any program incentives that may exist that encourage overprodcution.

A complementary change should be made with respect to commodity price support loans. A cap should be placed on loan coverage per farm family either at the volume limitation set for deficiency payments or at an equivalent dollar amount. If the marketing loan concept is included in the farm bill, a strict limitation should be applied on any gain realized from repaying an amount less than the loan rate.

Price stability

The major goal of loan programs, the Farmer-Owned Reserve, and supply management should be price stability and supply reliability. Interfaith Action supports reauthorization of the Farmer-Owned Reserve, as a key contribution to food security that enhances export reliability and promotes orderly marketing. An appropriately-sized reserve, more tightly focused on market stability, should be the objective of this year's reauthorization.

Several improvements in *the FOR program could further these objectives. First, the FOR should not be used as a substitute for effective supply management and conservation programs.* Excessive accumulations of reserve stocks (and higher reserve costs) have occurred when insuffficent supply control programs were combined with reserve entry incentives. Better coordination is needed. One approach to this problem would be to specify minimum and maximum reserve levels in line with the goal of food security. This would have the added benefit of setting an upper limit on reserve cost. In the event of limited reserve entry, the law should ensure all farmers equitable access to the reserve.

Second, *the grain market would be improved by a more gradual, staggered FOR release policy.* Rapid release of grain can disrupt markets, partially defeating the purpose of the reserve. A system that staggers release would reduce disruptions while giving farmers greater marketing flexibility.

Proposals to eliminate or phase out the FOR and supply control programs and dramatically reduce loan rates should be rejected. Such proposals would greatly increase price instability and intensify boom and bust cycles unnecessarily.

The approaches to income support and price stability we are recommending would retain the basic price and income stabilization aspects of the current program, relying on the market to establish prices within a wide corridor. They would be flexible in responding to changes in production costs and market trends. They would continue to offer protection to both farmers and consumers. They would target benefits to family-sized farms, bringing the programs in line with the widely supported goal of fostering and encouraging the family farm system of agriculture. Finally, they would establish a substantive, goal-oriented method of reducing and containing program costs.

Tax policy

We realize that tax policy is not an area under review in the farm bill nor in this committee. However, we cannot pass by the opportunity to call attention to the detrimental impact current tax rules have with respect to agriculture. In our opinion, without basic farm tax reform in the very near future, all attempts in the farm bill to improve the farm economy, protect family farms, limit budget exposure, and improve conservation will prove unsuccessful. Current tax policies affecting agriculture lose large amounts of revenues, hurt farm income and profitability, subsidize large-scale and investor-owned agriculture, and promote overproduction and the planting of marginal lands.

We would call your attention to the following statement in the 1984 *Economic Report of the President:* Tax policy does not affect the profitability of all types of farms equally. The tax laws encourage the substitution of capital for labor. Larger farms, which generate higher incomes, appear to gain proportionately greater benefits than small farms. People in higher marginal tax brackets can benefit more from the tax provisions. This creates an incentive for higher-income people to invest in farming. In practice, losses from farm operations reduce taxes on other income by more than the total Federal tax revenue from farm profits, implying that total farm income for tax purposes in negative. (p. 130)

Attached as Appendix C is an important statement on tax policy and agriculture that was part of a statement entitled *Beyond Crisis: Farm and Food Policy for Tomorrow* written by participants from 16 farm, church, rural, conservation, and food organizations, including Interfaith Action. We encourage the committee to consider this statement and its recommendations. We also urge the committee to request hearings on this subject in the Finance Committee during this year of debate and discussion of comprehensive changes in both farm policy and tax policy.

FmHA farm credit

Interfaith Action supports the Farmers Home Administration in its historic role as a lender of last resort to small and moderate-sized family farms and as an aid to young farmers making initial land purchases. Despite this traditional role, FmHA has tended to drift from these purposes in recent years. Increasingly, larger loans are granted to bigger, more established producers, often cushioning the risk of farm expansion.

Meanwhile, the current farm recession has increased the need for a lender of last resort to help keep financially troubled yet viable family farms in operation. And, ironically, lower prices for land and machinery also mean greater opportunities for new farmers to get started or former farmers to reenter agriculture—if reasonably priced credit is available to them.

FmHA can fulfill these purposes—at a modest cost saving—by reducing the level of government lending and loan guarantee activity in larger, riskier loans, which often finance expansion-oriented farms, and refocusing FmHA loans on moderate-sized family farms. Interfaith Action endorses the FmHA reforms proposed by the Center for Rural Affairs, a summary of which is attached as Appendix D. We would highlight the following recommendations for the Committee's consideration:

Resist attempts to significantly reduce the level of direct or insured loans in favor of loan guarantees. Experience indicates that banks tend to enter loan guarantee arrangements as insurance against large losses from larger, risker loans—not to extend credit to small and moderate-sized family farms. A move toward guaranteed loans would mean fewer, larger loans at the expense of a greater number of more modest loans.

Continue loans for farmland purchases. A number of proposals would eliminate or sharply curtail FmHA loans for farm ownership. Such action would significantly reduce the opportunity for tenant or beginning farmers to become owner-operators. We especially support the farm ownership loans to limited resource borrowers.

Continue and strengthen the limited resource loan program. To return FmHA to its traditional role, we believe the agency should refocus loan programs on limited resource borrowers. We favor increasing the portion of FmHA regular farm loan programs earmarked for limited resource borrowers from 20 to 25 percent and continuing the reduced interest rates for qualified LR borrowers.

Assure that FmHA farmland inventories are disposed of in a way that gives priority to beginning and family farmers. Borrowers qualifying for the limited resource loan program should be given first opportunity to purchase FmHA-owned farmland.

Reduce loan limits on FmHA regular operating and emergency loan programs. High loan limits can serve only to accommodate the needs of a relatively few borrowers who cannot be served under more modest limits. Reduction of loan limits, especially in the emergency loan program, would help to refocus FmHA farm loan programs on small and moderate-sized family farms.

Resource conservation

America's agricultural success has always been based on an abundance of high quality agricultural land. Unparalleled US agricultural productivity has established US preeminence among the world's food producers. In recent years, however, the finite nature of our land base has become increasingly evident, as erosion of topsoil has emerged as major a problem facing US agriculture. According to USDA's 1977 Natural Resource Inventory (NRI), the problem is large—about 2.8 billion tons of topsoil are lost from the nation's farmlands each year.

A national resource conservation policy should be established as part of the 1985 farm bill. The goals of such a policy should be to maintain or improve the productivity and quality of soil, water, and energy resources, and to minimize adverse environmental impacts from the use of these resources. Such a policy must (1) recognize that conservation—essential in the long term—may not be economically profitable in short term; (2) target funds to cost effective conservation strategies; and (3) improve consistency between public policies affecting agriculture and conservation objectives.

Over the past two years, soil conservation has been an issue of considerable concern in Congress. *Interfaith Action has supported strong sodbuster and conservation* *reserve legislation. We support inclusion of similar provisions, with appropriate technical revisions, in the 1985 farm bill.* In our view, enactment of these provisions would constitute a cost-effective erosion control strategy that, for the first time, attempts to deal with the issue of consistency between farm commodity policy and conservation objectives.

However, we also strongly favor broadening the sodbuster legislation to include denial of tax benefits to those who plow highly erodible land. Tax benefits, especially if land is developed for irrigation, can form a powerful incentive to plow highly erodible land. Deductions for leveling, clearing, or draining marginal lands should be discontinued. We believe this issue deserves additional study and consideration.

Food aid and reserve

Interfaith Action has a long-standing interest in food aid programs, especially in terms of their effectiveness as a developmental resource. Food can and should be used to foster greater food security in developing nations, but it can also serve as an obstacle to such ends. *In light of this, we recommend inclusion of food security among the purposes of PL 480 as listed in section 2.*

Food security, according to the UN Food and Agriculture organization, is defined as "arrangements which assure that all people at all times have both physical and economic access to the basic food they need." In our view, short term food security may be enhanced through insuring food aid continuity and making food aid more responsive to emergency situations. Ultimately, however, all food aid and agricultural trade policies and programs, especially PL 480, should be carefully scrutinized to assure that their impact on broad based, equitable economic development is positive and that the long term food self-reliance of developing countries is promoted. To achieve these objectives, we recommend:

Continuation of the Food Security Wheat Reserve and prompt replenishment of the recent 300,000 ton drawdown;

A *limited* expansion of the overall PL 480 program and continuation of Title II mandatory minimum tonnages at current or modestly increased levels;

Pre-positioning of modest amounts of commodities at US ports to reduce shipping delays in responding to famine emergencies.

Making financial resources available under Title II in association with commodities to enhance their developmental effectiveness. In addition, we recommend that, within strict limits for an initial trial period, monetization of a portion of Title II commodities be authorized;

Streamlining of the developmental Title III program and toughening of Title I terms to make Title III more attractive to financially hard-pressed developing nations. Title I obligations should not be made payable in local currencies.

Appendix E is a more complete listing of Interfaith Action recommendations on food aid programs.

Domestic food assistance

Despite bounteous harvests, millions of Americans continue to go hungry. Like millions of others around the world, they are hungry because they are poor. Currently, 35 million Americans have incomes below the poverty line. These people have great difficulty purchasing an adequate diet for proper nutrition.

As part of the 1985 farm bill, Congress should enact a national food assistance policy that recommits this nation to providing a nutritious diet to all Americans. The food stamp program, the federal government's primary domestic antihunger mechanism, should be made broadly and promptly available to all those without sufficient income to purchase an adequate diet. Other food assistance programs that offer supplemental benefits to special populations (the school lunch and breakfast, elderly nutrition, and the special supplemental Women, Infants, and Children programs) should also be expanded to serve all those in need of assistance.

During the last four years, federal food and nutrition programs for poor people have failed to keep up with the rising tide of hunger. Funding for these programs has been reduced by more than $12 billion—$7 billion for food stamps alone—causing millions of people to lose food and nutritional benefits and others to exist on less than adequate diets. By cutting these programs at a time when economic recession, high unemployment, and the numbers of poor people were increasing, the government did exactly the opposite of what was needed to counteract the growing problem of hunger and malnutrition in the United States. Since then, little has been accomplished to reverse this alarming trend.

In addition to combatting hunger and malnutrition, the food stamp and other federal nutrition programs are an important source of support for US farmers. Food programs assure that millions who would otherwise go hungry continue to constitute effective demand for food. In a period of chronic surplus production and low farm commodity prices, maintaining strong food and nutritional programs is essential to the farm economy.

We oppose any further cuts or eligibility requirements in the food stamp program. Our specific recommendations for program improvements can be found in Appendix F.

[APPENDIX A]

FAMILY FARM POLICY

In 1977 and again in 1981, Congress reaffirmed as US policy a commitment to "foster and encourage the family farm system of agriculture." Section 102 of the 1977 Act also requires an annual "status of the family farm" report from the Secretary. Over the years, these reports, although uneven, have provided valuable information on the structure and trends of US agriculture and have yielded important studies on the effects of public policies on farm structure. Among the policy findings brought to light are:

Most significant economies of scale in production are achieved at relatively small farm size;

Farm tax shelters depress current cash income, inflate asset values, stimulate overinvestment and overproduction, concentrate asset ownership, and create very high barriers to entry by new owner-operators; and

Farm commodity programs have stimulated farm enlargement and consolidation, encouraged higher debt levels, and concentrated payments and loan to the largest farms.

Unfortunately, in the last three years Congress has not held any oversight hearings on the issues raised by the policy language and the status reports, and the process has therefore degenerated. As part of any revision and reauthorization of this section of law, Congress should commit itself to regular oversight hearings.

As part of the 1985 farm bill, Interfaith Action recommends that *the family farm policy language and reporting requirement be reauthorized with several revisions and be included as a section of the research, extension, and teaching title.* As part of this policy, Congress should declare as a goal the renewal of an efficient, resilient, diversified, and widely dispersed family farm system of agriculture. Congress should also express its intent to minimize the extent to which farm-related policies and programs encourage farm consolidation, nonfarm investment in agricultural resources, separation of ownership from operation, or economic concentration. These additions to the current language would reinforce the original intent of the policy statement.

With respect to the status reports, a series of indicators should be established, either in law or legislative history, to measure the social, economic, and financial structure of agriculture and its relation to rural communities. These indicators would follow the information provided in previous reports, with the addition of a new block of information on the interplay with rural communities discussed above. These should include:

(1) A series of indicators to help measure the organization of the farm system, including, but not limited to:

(a) Distribution of farms, land in farms, and farm output by sales class and by farm type;

(b) Amount of hired labor on farms by sales class and by farm type;

(c) Scope and dimension of production contracts and vertical integration by commodity and by sales class;

(d) Nonfarm beneficial control and ownership of farmland and other agricultural resources;

(e) Number of and relationship between farmland owners and farm operators;

(f) Legal organization of farm businesses by sales class and by farm type;

(g) Type of tenure of operator by sales class;

(2) A series of indicators to help measure the financial structure of the farm system, including, but not limited to:

(a) Farm family income by source of income and by sales class;

(b) Relationship between gross and net income and government payments and tax expenditures by sales class;

(c) Nominal capital gains on farm assets to farm operator and to nonoperator landlord by sales class;

(d) Value of farm assets, debts, and proprietors' equities in the aggregate and for the average farm in each sales class;

(e) Debt/asset ratios by sales class;

(f) Degree of financial leverage by sales class;

(g) Relative stability/instability of current returns to farm assets;

(h) Farm real estate and operating credit use by source and by sales class;

(3) A series of indicators to help measure the economic and social structure and well-being of rural communities and their relationship to the local structure of agriculture including, but not limited to:

(a) Level and distribution of family incomes;

(b) Number, sales volume, and beneficial ownership of businesses;

(c) Range of occupation and level of employment;

(d) Range and quality of physical facilities and public services for community living;

(e) Range of organizations for civic improvement and social recreation;

(f) Patterns of, and level of participation in, community decision-making;

(g) Level of local and county tax revenues;

(h) Local population growth and demographic composition;

(i) Availability of agricultural supply and product markets.

The Reagan Administration has proposed that the reporting requirement be changed from every year to every other year. This seems to be a reasonable request, given the time necessary to do a well-researched report and the relatively small changes from year to year. If the report was made early during the first session of each Congress, oversight hearings could be scheduled prior to consideration of any major agriculture-related legislation.

The Administration also proposes to drop the specific requirement for report information on the effect of tax and credit policies on the family farm system and on nonfarm investment in agriculture. In light of the substantial impact of tax and credit laws on the structure of agriculture and in light of the current congressional discussions of major tax and credit reforms, Interfaith Action opposes this proposed deletion.

Proposed legislative language

Amendment to 1981 (PL 97-98) "Agriculture and Food Act" (Section 1608). Amend Section 102 of the 1977 Act to read as follows:

Section 102. (a) Congress reaffirms the historical policy of the United States to foster and encourage the family farm system of agriculture of this country. Congress believes that the maintainance of the family farm system of agriculture is essential to the social well-being of the Nation and the competitive production of adequate supplies of food and fiber *and declares as a goal the renewal of an efficient, diversified, and widely dispersed family farm system.* Congress further believes that any significant expansion of nonfamily owned large-scale corporate farming enterprises, *or the expansion of ownership of agricultural resources by nonfarm investors,* will be detrimental to the national welfare. It is neither the policy nor the intent of Congress that agriculture and agriculture-related programs be administered exclusively for family farm operations, but it is the policy and express intent of Congress that no such program be administered in a manner that will place the family farm operation at an unfair economic disadvantage *or will result in farm consolidation, separation of ownership and operation, or economic concentration.*

(b) In order that Congress may be better informed regarding the status of the family farm system of agriculture in the United States *and its impact on rural communities and the social well-being of the nation,* the Secretary of Agriculture shall *establish a series of indicators to help measure the social, economic, and financial structure of the farm system and the social, economic, and financial structure of agricultural communities, taking such steps as necessary to update and improve the data base, the data gathering process, and the ability to cross-classify the indicators. The Secretary of Agriculture shall submit to Congress, by March 1 of each odd numbered year,* a written report containing current information on trends in family farm operations and comprehensive national and State-by-State data on nonfamily farm operations in the United States. The Secretary shall also include in each such report (1) information on how existing agricultural and agriculture-related programs are being administered to enhance and strengthen the family farm system of agriculture in the United States, (2) an assessment of how tax, credit, *research,* and other Federal laws may encourage the growth of nonfamily farm operations and investment in agriculture by nonfamily farm interests, both foreign and domestic, and (3) such other information as the Secretary deems appropriate or determines would aid Congress in protecting, preserving, and strengthening the family farm system of agriculture in the United States.

[APPENDIX B]

RURAL COMMUNITIES

Interfaith Action recommends that *a federally-sponsored research initiative be established as part of the agricultural research, extension, and teaching policy amendments to the farm bill to examine the relationships between the structure of agriculture and the social and economic health of rural communities.* Such an initiative should:

Expand the base of knowledge relating to the structure of agriculture and the vitality of rural communities. Such research should be done for a variety of types of farms and agricultural communities and for various regions of the country;

Measure both the economic and social costs of farm consolidation, separation of ownership from operation, contract farming, and other trends, employing professionals from a variety of disciplines;

Examine the effects of input, service, and product market availability, land use competition and regulations, taxation, and other community factors on farm structure; and

Yield reports from USDA, supplementing or combining with the family farm status reports, detailing the impact of federal farm policies on agricultural communities.

While casual observation and the long history of town and country ministry support the contention that the economic organization of agriculture has a direct bearing on the quality of rural community life and vice versa, relatively little research from any academic disciplines exists on the subject. The work that has been done supports strongly the common perception: it does make a difference in the quality of life whether local agriculture is based on moderate-sized family farms, larger than family-sized farms, or absentee-owned farms.

The most comprehensive study to date of the social and economic impact of various farm structures is the research of Dean McCannell at the University of California at Davis (1981). His examination of 83 Central Valley communities demonstrated that increasing farm size beyond moderate size is associated with a measurable deterioration of the nearby rural community, using standard social indicators. Furthermore, the study concluded that any increase in the proportion of farmland owned by nonresidents of the local community is associated with measurable community deterioration.

Among the findings of this and similar studies is the observation that large scale agriculture is associated with low levels of retail sales outlets, low business volume, low levels of community service availability, inadequate public financing, high levels of inequality and population at or below poverty levels, and low community cohesiveness.

Policymakers are in the midst of making critical decisions regarding the future of family farming and agricultural communities in America. In making these choices, it is essential to be able to relate changes in the structure of agriculture to farm, community, and environmental impacts and then to relate this data to public policy choices. Unfortunately, there are very large information gaps that need to be filled quickly if informed judgments are to be made.

In his address to the Symposium on Agricultural Communities held by the Congressional Research Service at the request of this committee, Fred Bettel of Cornell University put the case succinctly: On the one hand, there exists a relatively convincing body of research indicating substantial interrelations between agricultural structure, and community structure and quality of life. This research is sufficiently solid and consistent so as to justify a most crucial conclusion: larger-than-family farms tend to be associated with adverse social and economic conditions in agricultural communities. On the other hand, our empirical knowledge is only partially adequate to serve as a basis for public policy; in particular, the social science community would find it problematic to specify concretely the gains in the quality of life of agricultural communities that would result from restraining or reversing the growth of larger-than-family farms.

To fill this knowledge gap, a specific authorization is required. On the farm side, the variables analyzed should include number and sizes of farms, control and ownership patterns, the prevalence of hired labor or management, the degree of production specialization, the scope of vertical integration, and the number and types of part-time farms. On the community side, both economic and social variables should be examined. These would include farm and nonfarm employment opportunities, business volume, service availability, levels and financing of public services and amenities, the degree of equality and inequality, demographic characteristics, patterns of community decision-making and number of civic and religious organizations.

It is extremely important that research along these lines:

Be conducted in geographically diverse agricultural regions and for a variety of land tenure/farm size structure arrangements and a variety of types of agricultural communities;

Include professionals from a variety of academic disciplines;

Examine the interplay of production agriculture with input provision and marketing sectors of agriculture as it relates to communities;

Measure costs and benefits of current and alternative public policy scenarios;

Be done under the auspices of the Economic Research Service, which should be given the lead role in providing funds, coordinating comparative regional research through the Cooperative State Research Service, and reporting to Congress.

[APPENDIX C]

TAX POLICY

(From *Beyond Crisis: Farm and Food Policy for Tomorrow*)

Goals

Like tax policy in general, tax rules affecting agriculture should raise revenue and at the same time be:

Fair and equitable, based on ability to pay;

Relatively simple;

Neutral with respect to scale, factor of production mixes, types of investments, management decisions, and forms of business organizations;

Biased against inheritance of large concentrations of wealth and property, including farm land and assets.

Issues

Federal tax policy is one of the most important, but least understood, government forces shaping the structure of agriculture. Farming offers substantial tax shelters—investments which generate lower tax burdens or greater tax savings than alternative investments of equal profitability. Tax shelters affect investment decisions by farmers, non farm investors, and corporations, attracting investment to farmland purchases and crop and livestock production. The resulting increased production lowers crop and livestock prices.

Moreover, the tax benefits of investing in land are bid into its price, raising costs and creating losses for farmers trying to pay for land by actually farming it. Thus, when farm profits fall and land prices weaken, farmers and speculators reduce tax motivated investments, creating more severe land price declines. This in-again, out-again behavior contributes to boom/bust cycles in the land market, which destroy people who pay too much for land in the boom periods and then lose their equity in the bust. These distortions in the land market combined with lower crop and livestock prices, result in a net loss for moderate sized and beginning farmers especially because they lack the high incomes and large investments necessary to realize the full benefit of tax shelters.

Those who can most effectively exploit tax shelters receive a competitive advantage with which to gain control of a larger share of agriculture. The less favored lose their ability to compete in the land market. Their relatively minor tax savings are generally insufficient to make up for lower crop and livestock prices.

In general, tax shelters grant a comparative advantage to farmers with high incomes, nonfarm investors and corporations, and larger farms. Because they are in higher tax brackets, their deductions yield greater tax savings. Tax provisions which reward expansion and replacement of labor with capital benefit most growth-oriented, capital-intensive operations. Small, moderate-sized, and beginning farmers benefit little from growth and labor-replacing incentives.

In sum, current tax policies affecting agriculture are:

Large revenue losers;

Inequitable between taxpayers filing farm returns with the same incomes (especially corporate versus non-corporate income) as well as between those with widely different incomes;

Exceedingly complex—and increasingly so as Congress has attempted to "reform" the code over the last decade to reduce farm tax shelter schemes for very narrow classes of taxpayers;

Scale-biased toward continual farm enlargement, capital-intensive farm operations, investor-ownership of land and resources, investments in special categories of equipment and buildings, and incorporation and the regular enlargement of corporations thus established;

Helping create a land tenure system which offers few opportunities for beginning farmers except inheritance;

Detrimental to farm income and profitability.

Principles for change

Agricultural taxation should be examined by policymakers in a systematic manner, with intended goals and actual effects compared carefully.

Specific farm tax reforms should be part of any future tax reform bills of the type which were enacted in 1982 and 1984. By the same token, however, no further farm tax loopholes should be created by these efforts unless they are specifically geared and carefully crafted to foster the renewal of a broad-based family farm system.

Agriculture-related rules should be examined and reforms included in any comprehensive tax income overhaul package considered by Congress.

Tax rules affecting agriculture should be on the policy formulating and oversight agendas of USDA and Treasury, and the Congressional tax committees and agriculture committees.

More private and public research on this subject should be undertaken, especially research to quantify the effects of tax policy in the agricultural sector.

Recommendations

1. Eliminate farm tax shelters (deductibility of certain capital investments, cash accounting, investment tax credit, etc.) or limit the volume of benefit any one farm can claim to an amount adequate for farms of a size sufficient to achieve most efficiencies and capable of providing an adequate family income.
2. Limit the deduction of farm losses from nonfarm income to the national median income minus the amount by which the taxpayer's income exceeds the national median.
3. Change depreciation schedules for capital assets used in farming to approximate actual decline in value over the useful life of each asset.
4. Limit deduction of interest as a farm business expense to farmers active in the daily operation of their farms.
5. Tax all farmers according to the same tax schedule by taxing corporations as partnerships or by some similar method.
6. Revamp estate, gift, and inheritance taxes to focus on the amount of wealth that can be inherited by an individual rather than the amount that can be passed on by the estate.
7. Freeze the unified estate tax credit.
8. Capital gains should be taxed more severely and the total dollar amount taxable as capital gains should be limited annually or by lifetime.

[APPENDIX D]

FMHA FAMILY FARM REFORM PROPOSAL SUMMARY, JANUARY 1985

Purpose: To restore FmHA's basic mission of maintaining opportunities in agriculture by providing modest assistance to efficient family-size farms. The reforms refine and bolster current programs and procedures which support that goal, and they reduce or eliminate programs and procedures which are open to farms that are larger than family-size. While these proposals are long-term reforms, many (indicated by *) will have an immediate impact on the current credit crisis.

I. *Limited Resource (LR) Loan Program Reforms.* This section strengthens the LR program by:

*Restoring the original minimum quota to require that at least 25% of FO and OL funds go to LR borrowers;

Making funds available for record keeping training for LR borrowers;

*Lowering the LR interest rate in the OL program to one-half the cost of money rate (same as LR/FO);

Making the definition of, and procedure for determining, an LR borrower more explicit;

Clarifying the status of LR loans in the OL program.

In another proposal section (IV) additional funds at the LR rate are made available for the disposition of farmland from FmHA's land inventory.

II. *FO and OL Program Reforms.* This section strengthens the family farm purpose of FmHA's basic programs by:

Adopting a new definition of a family-size farm;

Protecting the role of insured FO/OL loans to family-size farms by limiting guaranteed FO and OL loans to 10% of all FO and OL funds;

*Modifying the current individual OL loan ceiling by limiting to 25% the amount of insured OL funds which go to borrowers with OL indebtedness over $100,000;

Limiting a borrower's total FmHA debt (FO, OL, EM) to $500,000.

III. *EM Program Reforms.* This section reduces the scope of the EM program and would realize substantial savings in interest subsidies by:

Limiting emergency loans to family-size farms:

Eliminating the EM lending to farms which can get credit elsewhere;

Reducing the EM loan ceiling from $500,000 to $200,000/disaster.

IV. *Family Farm Disposition of Farmland Inventory.* This section makes explicit a family farm preference for the disposition of farmland from FmHA's growing land inventory by:

*Limiting the lease or sale of FmHA farmland inventory to farmers who are eligible for FmHA FO or OL loans with first priority going to limited resource (LR) borrowers;

*Authorizing a separate, temporary use of LR/FO funds to finance the purchase of farmland inventory by LR borrowers;

*Providing for the subdivision of inventory farmland which is larger than appropriate for family-size farms;

*Providing emergency procedures for valuing suitable farmland at a price which reflects the land's income yield.

V. *Farm Loan Servicing Reforms.* These reforms clarify existing deferral law (7 U.S.C. 1981a), confirm selected judicial interpretations, and provide new remedies for handling delinquent borrowers and dealing with economic emergencies by:

*Clarifying that "circumstances beyond the borrower's control" include broad economic factors like unexpected high interest rates and low commodity prices;

*Providing minimum standards for the release of income security for family living and operating expenses.

*Instituting a permanent "right to cure default" which prevents unnecessary accelerations and foreclosures;

*Creating an emergency farmstead protection plan which during specified emergencies allows a borrower to temporarily exempt from acceleration and foreclosure limited, minimal farmstead assets.

VI. *Farm Loan Processing Reforms.* These reforms will expedite the processing of farm loan applications and improve farm planning procedures by:

Requiring minimum time limits for the processing of critical loan approval and obligation forms;

Providing for a study of the appropriateness of the FmHA's critical "Farm and Home Plan" and proposed substitutes.

VII. *County Committee Reforms.* This reform will improve the participation of the county committee in determining farmer eligibility by:

Requiring the election of two of the three county committee members;

Requiring that the third committee member be appointed by FmHA to adequately reflect any sizeable farmer minority in the county.

VIII. *Farm Program Appeal Reforms.* Through these reforms, FmHA's administrative appeal system will better protect the integrity of FmHA's public purposes by treating farmers in like circumstances consistently and providing a more effective system of checks and balances to measure FmHA loan officers' effectiveness in program implementation. These reforms will:

Emphasize the use of informal meetings to settle disputes quickly and reduce the need for formal appeals;

Provide for a formal hearing with an independent administrative law judge when the informal hearing fails to resolve the dispute.

Budget implications: Based on FY1984 lending records, the above proposals will save about $30 million in interest subsidies. We estimate that savings from limiting EM loans to family-size farms will be about $44 million which will be partially offset by a $14 million increase in subsidized LR interest in the OL program. There would also be sizeable, but indeterminable savings from the resulting decrease in the high loan losses experienced in the EM program.

* * * * * * *

The FmHA Family Farm Reform Proposal has been prepared by the Center for Rural Affairs after several years of monitoring FmHA and helping FmHA borrowers with their loan problems. The eight sections in the proposal were prepared by Center staff and other organizations and individuals. The proposal in its entirety is available by writing the Walthill, Nebraska office or contacting Jay Sherman at 2001 S. St., NW; Suite 500; Washington, DC 20009; 202-483-1500.

[APPENDIX E]

Interfaith Action would like to address six issues related to the developmental and food security effectiveness of Public Law 480 and to offer specific recommendations to enhance its effectiveness.

1. Inclusion of "enhancement of food security" among the basic purposes of Public Law 480

Public Law 480 is a law with multiple objectives. The Agricultural Trade Development and Assistance Act of 1954 "declares it to be the policy of the United States to expand international trade; to develop and expand export markets for United States agricultural commodities; to use abundant agricultural productivity of the United States to combat hunger and malnutrition and to encourage economic development in the developing countries that are determined to improve their own agricultural production; and to promote in other ways the foreign policy of the United States." (Sec. 2)

If food security is defined to involve food production, consumption, trade, stocks, and food policy management, it is an objective that Public Law 480 is currently advancing in some instances. For example, Public Law 480 commodities can be used to improve people's nutritional status, stimulate local food production, expand the amount of food available on local markets, and ease the transition to more remunerative prices for local producers. However, these activities are not a major purpose of US food aid and are frequently overridden by other and competing objectives.

We therefore recommend that "the enhancement of food security" be accorded a place in Section 2 of Public Law 480. The elevation of this specific objective to the panoply of purposes cited above would not only recognize some of the current uses of food aid, it would also facilitate the use of US food aid in ways more consistently supportive of food security.

Elevation of food security as a Public Law 480 objective would also require increased vigilance regarding the disincentive effects of food aid transfers on local agricultural production and food self-reliance.

We therefore recommend in the extension of Public Law 480 the reinforcement of existing safeguards to protect against disincentive effects. This could be accomplished in part by requiring country allocations to be an integral part of national food strategies and development plans.

2. Reinforcing the continuity of food aid availability

Significant advances have been made during the three decades of Public Law 480's existence is assuring countercyclical availability of food aid commodities. Initially an agricultural surplus disposal program, Public Law 480 now reflects the reality that, if food aid is to serve longer term development objectives in the Third World, its availability needs to be assured precisely when food is otherwise least available at prices within reach of food-short countries. In other words, while Public Law 480 can take advantage of US agricultural abundance in one year or another, it must be based upon something more reliable than otherwise unexportable surplus.

Two of the major improvements in the past decade were the creation of a four million ton food security reserve in 1981 and the enactment of certain mandatory minimum tonnage assurances for Title II in 1977. *We would like to see the food security reserve and the mandatory minimum tonnages extended. In addition, to facilitate the more prompt availability of food aid in crises situations, modest amounts should be prepositioned in US ports.*

In our judgment, the food security reserve has proved its utility and deserves to be continued as an ongoing feature of US food aid policy. However, we believe it could be strengthened in several respects. First, a clearer presumption to use the 300,000 ton drawdown authority once regular resources are fully committed should be established so that, as in fiscal year 1985, an administration does not defer too long. Second, a clearer presumption in favor of prompter replenishment than the Reagan Administration now acknowledges would be helpful. Finally, the completion of interagency groundrules to govern the use and replenishment of the reserve is long overdue.

With respect to the Administration's proposal to create a new Food Assistance Reserve (FAR), we would oppose the recommendation as currently crafted. First, the FAR seems unnecessary and duplicative of the food security reserve, whose value is now proven. Second, the FAR would give the Agriculture Secretary total discretion as to when and if to stock, use, and replenish the reserve. Its use would not be limited to international humanitarian emergencies under Title II. Third, the proposed size of the reserve—500 million bushels or roughly 14 million tons—is far larger than necessary, more than three times the size of the current reserve. Finally, the FAR would be open to all commodities used, complicating the management of what has worked well as a wheat-only reserve.

With respect to the issue of mandatory minimum tonnages, we recommend that current provisions be extended but not substantially increased.

We are aware of proposals that would increase the annual tonnages mandated for Title II from the current level of 1.7 million metric tons incrementally up to a total of 3 million metric tons in fiscal year 1988 and thereafter. The Andreas Commission, which recently completed its report on the private sector and US foreign aid, has recommended that the tonnage of Public Law 480 as a whole be doubled in the near future.

We do not dispute projections of developing country food production shortfalls, and consequent food import needs, of substantially larger amounts. However, we do not believe that the broad objective of enhancing food security in developing countries is advanced by compelling the US to provide ever growing amounts of food aid to a still hungry world. We read the historical record as suggesting that food aid has tended to be most successful where its application has been the most focused and precise.

While therefore opposing a major increase in Title II mandatory minimum tonnages, we would favor a provision that would allow an upward adjustment in food-short years. One way of accomplishing this change would be to authorize the President to exceed the statutory budget ceiling for Title II (currently $1 billion) in years when additional commodities are necessary to meet urgent human needs.

Our reservations about mandating significantly higher tonnage levels for Title II apply with even greater force to proposals to legislate a more or less permanent expansion in the size of the Public Law 480 program as a whole. A larger program would blur the message that US food aid and development policy should be sending to chronic food deficit countries: that there is no substitute for energetic steps on their part toward food self-reliance. It would fly in the face of evidence that programs providing appropriate technical assistance to Third World food producers are far more cost-effective than those that ship massive amounts of grain to developing countries.

Finally, *we recommend that the responsiveness of Public Law 480 to emergency food shortages be increased by prepositioning modest amounts of grain on call at US ports.* This change could eliminate as much as six to eight weeks in the time currently needed to move commodities from inland warehouses to dockside locations. The current interagency allocations and call-forward process would remain as is.

3. Making food aid a more development resource

There is widespread agreement that Public Law 480 commodities are a resource for Third World development of still greatly unrealized potential. Several major changes being recommended this year seek to make Public Law 480 more developmental. One set of changes would attempt to make cash more available to Title II agencies; a second would be Title I repayable in local currencies, the proceeds from which could be used for development purposes.

Most observers would agree that, while there is nothing inherently developmental about food aid transfers, they can, given appropriate planning, management, and supportive inputs, make a durable contribution to a nation's or a community's development.

Realizing the need for inputs to support the developmental use of food commodities that only money can buy, there is widespread agreement that cash needs to be available in association with food aid programs. The most popular recommendation is that agencies using food aid simply be allowed to sell, or monetize, a portion of the commodities, generating resources to be applied to the better use of the remaining commodities available.

Given the importance of generating resources for the more effective use of food aid commodities, *we recommend that, within strict limits and for an initial trial period, monetization of a portion of commodities be allowed.* We say this with some reservations because of the following considerations:

The larger the case component needed, the more grain will need to be monetized, and the more chance of disincentives to local production;

To the extent that PVOs themselves sell grain on local markets, they may confuse their roles or engage in an activity in which they have limited competence;

The problem of monitoring "leakage" is exacerbated if the same commodities are available in Title II programs and for sale in local markets;

The multi-year availability of cash may not be assured if sales are keyed, as they need to be, to the lack of availability of locally produced food.

While some monetization under carefully controlled situations is necessary and supportable, *we would favor preference being given to legislative changes allowing Title II agencies to receive cash directly from Public Law 480.* While this change would mean the purchase of fewer commodities with a given amount of Public Law 480 resources, as in the case of monetization, it would make the commodities available to the program more attractive to administering agencies and more useful in the service of development objectives.

Proposals are being made this year to allow future Title I concessional sales obligations of the poorest countries to be payable in local currency rather than in dollars. This change, it is said, would encourage more countries to enter into Title I, and would also generate substantial amounts of local currency that, because it would need to be used within the country, could therefore be "captured" for developmental purposes.

Taking a different view, *we recommend that Title I obligations not be made payable to local currency.* We do so for the following reasons:

In earlier days when local currency payments were allowed, there was fierce competition among a variety of different uses and, in some instances, major political difficulty surrounding local currency accumulation and use;

Because Title I's effectiveness as a developmental program over the years has been minimal, the attempt now to graft developmental gains onto it is likely to be unsuccessful;

The viability of Title III food development programs, already seriously undermined by the lax concessionality of Title I, would be further vitiated.

Instead of a reversion to local currency payments for Title I, *we recommend that Title I be made less enticing to financially hard-pressed developing country governments and Title III streamlined and made more attractive.* This change would be an investment in a more developmentally-oriented Public Law 480 program.

We also recommend that serious consideration be given to phasing down the current Title I direct loan program, moving instead toward a loan guarantee approach integrated into the current short and intermediate term export credit programs. Highly subsidized direct loans would then be reserved for Title III only. The CCC would help negotiate private banks loans, guaranteed by the federal government, at closer-to-market rates for many current Title I recipients. Such a change would encourage more careful food and agricultural planning. During the transition, therefore, further assistance should be closely tied to national food strategies and development plans.

4. Enhancing food aid as a multilateral resource

When Public Law 480 was enacted more than three decades ago, the US was the sole provider of food assistance. In the intervening years, some 50 other nations have become involved in making food assistance programs possible. With the creation of the United Nations World Food Program (WFP) in 1963 and the Committee on Food Aid Policy Programs in 1975, food aid has evolved from a US invention and activity to a humanitarian and development resource shared by the international community as a whole. This is still the case today even though the US provides over half of world food aid.

Given the importance of US food aid within a now broader international community response to emergency and chronic human need, *we recommend that Public Law 480 be amended to affect the important role played by international organizations in administering programs using US food aid commodities.* The mandate of the Committee on Food Aid Policies and Programs in coordinating international food aid and enhancing its effectiveness also deserves supportive mention.

Affirming the centrality of Public Law 480 to U.S. food aid programs

At a time of large exportable agricultural abundance, many look to Public Law 480 to serve as a "surplus disposal" mechanism, which was the major rationale for its creation. In its first decade, Public Law 480 was the channel for more than half of US agricultural exports. In later years, however, other vehicles have been devised to expand the quantities of commodities that the US exports to developing nations. These include Section 416 of the Agricultural Act of 1949 and the GSM credit programs administered by USDA.

In view of alternative agricultural export channels, *we recommend that PL 480 not be expanded significantly in the amounts of tonnage it is asked to manage. Furthermore, to the extent that greater use is made of other concessional agricultural* *export vehicles (such as Section 416 and intermediate credit programs) the essential protections and review processes that have improved Public Law 480 legislation over the years should be incorporated into these programs.*

6. The overall trade policy context

The US should work to improve its position as a stable, reliable, supplier of food in international markets. In terms of food security, however, food aid, trade, and reserve policies need to be finely-honed to make food available to food deficit developing nations on terms that do not create dependency or disincentives to local agricultural production. More aggressive U.S. agricultural export promotion does not necessarily mean enhanced world food security. US farm, trade, and related policies should be a means to promote price and supply stability both in US domestic and in international markets. They can thus make a major contribution to world food security and international cooperation.

We recommend that Congress clearly state its intent that the US avoid trade wars and export subsidy competition. The US should initiate international grain negotiations at the earliest possible date, with the goal of achieving a more equitable sharing of supply management and reserve-holding responsibilities among principle exporters. Among the advantages of such an approach would be the possibility of higher and more stable world grain prices, whereas the likely result of further steps down the trade war route would be the exact opposite.

[APPENDIX F]

FOOD STAMP PROGRAM RECOMMENDATIONS

(1) *Increase the earned income deduction from 18 percent to 20 percent of gross earned income.* This provision would repeal a previous funding cut aimed at the working poor—the lowering of the earned income deduction from 20 percent to 18 percent of gross earned income. The provision was enacted in 1981. The restoration of the deduction will more accurately reflect the true cost of work-related expenses such as payroll taxes and transportation. The provision will serve as an additional work incentive for participants and would increase benefits to working food stamp households. Approximately 18 percent of all households in the food stamp program have wage earners.

(2) *Separate the Excess Shelter and Dependent Care Deduction and raise their caps to $175 and $160 per month, respectively.* Currently, only one deduction is allowed for both excess shelter costs and dependent care costs. The total deduction may not exceed $134 per month. These deductions were combined in 1977 to prohibit households with high incomes from participating in the program. Combined deductions are no longer necessary due to the gross income eligibility limit of 130 percent of the poverty line which automatically eliminates households with higher income from participating in the program.

The provision would establish an independent excess shelter deduction in which food stamp households could deduct shelter costs in excess of 50 percent of their monthly net income, but not to exceed $175 per month. The provision would ease the burden for food stamp households who have high shelter costs by allowing a higher deduction and thus increasing food stamp benefits for these households.

The provision would also establish an independent dependent care deduction not to exceed $160 per month. The deduction would benefit the working poor and would provide a greater incentive for unemployed food stamp recipients to seek work or job training by allowing for a more adequate deduction for households that need to place young children or other dependent individuals in day-care situations. According to the most recent USDA statistics on the characteristics of food stamp households, 70 percent of all households are headed by women and 58 percent of all households have children. It is also estimated that 3 to 5 percent of current participants would be eligible for the dependent care deduction.

Under current law, the Congressional Budget Office has found that 75 percent of all dependent care costs incurred by food stamp program participants cannot be deducted.

(3) *Increase the liquid assets limits from $3,000 to $3,500 for households with two or more persons, at least one of whom is age 60 or older; and from $1,500 to $2,250 for all other households.* The current assets limit was set in 1971 and has never been adjusted despite inflation. The President's Task Force on Food Assistance and other studies have shown that many low-income households—particularly the unemployed—are being excluded from the program because the current assets limits are too low.

Raising the assets limits would allow the elderly living on fixed incomes and the "new poor" who have lost income due to unemployment or other circumstances to participate in the program.

(4) *Raise the allowable excess medical deduction for the elderly and disabled to $35 or 5 percent of monthly income, whichever is less.* This provision would lower the threshold for medical deductions for the elderly and disabled to $35 or 5 percent of monthly income, whichever is less. Under current law, elderly and disabled food stamp participants are required to pay the first $35 in monthly medical expenses before beginning to calculate their medical deduction. For most of these participants, this is an undue hardship.

The mean gross income for households which include an elderly or disabled person and receive food stamps is $300 per month. $35 of medical expenses represents 12 percent of the gross income of these households. Under current tax law, people who claim a medical deduction pay only the first 5 percent of medical expenses before the remainder becomes eligible for the tax deduction.

For the average elderly or disabled recipient, the effect of the provision would be to have all medical expenses above $15 deductible for determining food stamp eligibility and benefit levels. Higher income recipients would have a higher threshold and lower income recipients would have a lower threshold.

(5) *Increase the basis for determining food stamp allotments to 101 percent of the value of the Thrifty Food Plan.* Under this provision, food stamp benefits would be based on 101 percent of the Thrifty Food Plan. The Thrifty Food Plan is the least expensive of four food plans developed by USDA. Studies have shown that few households are able to maintain a nutritionally adequate diet when purchasing food with the limits of the plan.

Raising food stamp benefits to 101 percent of the value of the Thrifty Food Plan will increase benefits for all households participating in the program. Current benefits average 49.6 cents per person per meal.

(6) *Permit states to operate an optional system of monthly reporting and retrospective budgeting.* The provision repeals the 1981 provision making monthly reporting/retrospective budgeting a mandatory federal requirement. Current law does allow the exemption of certain categories of recipients from monthly reporting/retrospective budgeting based on the acceptance of a waiver request from a state.

The provision will help both recipients and program administrators. Pilot studies have shown that most of the recipients who have been terminated from the program for failure to comply with monthly reporting met all other eligibility requirements but had difficulty in filling out and submitting the reporting form. In many states, monthly reporting has also led to increases in administrative costs and paperwork and has not contributed to decreases in errors.

(7) *Quality Control.* We support the position of the National Governors' Association and the American Public Welfare Association with regard to quality control. This proposal would reform current law and emphasizes improvements in program administration and operation, not fiscal sanctions. The proposal also allows for state specific caseload characteristics in determining error rate tolerances.

(8) *Base food stamp benefits prospectively to more accurately reflect the actual cost of food.* This provision would base food stamp allotments for a given fiscal year on the projected average cost of the Thrifty Food Plan for that year, rather than current law, which bases food stamp allotments on the cost of the Thrifty Food Plan for June of the prior fiscal year. Under current law, food stamp benefits fall 3 to 15 months behind the actual cost of food due to the delay in adjusting benefits to keep pace with food price inflation.

Basing food stamp benefits prospectively is a more equitable basis for determining benefits and would assist participants in obtaining a more nutritionally adequate diet.

(9) *Adjust food stamp benefits on a semi-annual basis.* A less costly alternative to the prospective method of determining benefits mentioned above, would be to adjust benefits on a semi-annual basis to more accurately reflect food price increases. If this system were adopted, although it is less preferable than the prospective method, benefits would fall no more than 9 months behind the actual cost of food if benefits for the first six months of a fiscal year were based on the value of the Thrifty Food Plan for June of the prior fiscal year. Benefits for the last six months of the fiscal year could be based on the value of the Thrifty Food Plan in December of that fiscal year.

(10) *Analysis of the Thrifty Food Plan.* We recommend that a thorough analysis of the Thrifty Food Plan be undertaken to assess the ability of the Plan to meet the basic nutritional needs of food stamp program participants. Should the Thrifty Food Plan, and therefore food stamp benefits, prove inadequate, we would urge upward

adjustment of benefits to more accurately reflect the food and nutritional needs of participants.

(11) *Restore mandatory food stamp program outreach to inform potential program participants of the availability of the program and its eligibility requirements.* Prior to the Omnibus Budget Reconciliation Act of 1981, this provision was law. Currently, the federal government imposes no outreach requirement on the states. Studies have indicated that this lack of program information is a major contributing factor of low participation rates—particularly among the elderly, the "new poor," and poor people residing in rural areas.

A recent study conducted by the Center on Budget and Policy Priorities shows that while there are nearly five million more people living in poverty in 1984 than in 1980, food stamp program participation is down 300,000. While they state that there may be many factors for this decrease in participation, "the elimination of outreach may have been a modest contributing factor."

The food stamp program can make efforts to assure that poor people eligible for the program actually participate. Outreach should again become a mandatory program conducted by the states as an allowable administrative expense reimbursed by the USDA at a level of at least 50 percent of such costs. Outreach activities could be targeted on populations reflecting serious levels of under-participation such as the elderly, the "new poor," and poor people residing in rural areas.

(12) *Increase vehicle deductible value from $4,500 to $5,500.* Congress placed the $4,500 limit on the market value of cars in the food stamp program in 1977. The purpose was to prevent households with luxury cars from participating in the program. Since then, used car prices have risen nearly 100 percent and the $4,500 limit has not been increased. The result is that an increasing number of households—particularly the unemployed—have been made ineligible for the food stamp program because their vehicle has put them over the food stamp asset limit.

Raising the liquid asset limits will help to remedy this situation but does not directly address this specific problem. The vehicle limit should be raised in the interest of equity and to help prevent hunger among unemployed people.

The President's Task Force on Food Assistance also recommended raising the vehicle limit to $5,500.

(13) *Job search.* We are supportive of meaningful job search and work registration requirements for food stamp participants provided that they are not punitive in nature and can actually result in lasting and adequate employment. We are concerned, however, about current job search sanctions that penalize children in households with an adult member that fails to comply with job search requirements.

We recommend that the food stamp program should adoopt the sanction provision included in the AFDC program. Under the AFDC program, if the noncomplying member is a household member other than the principal wage earner, the entire household is not sanctioned. Instead, the noncomplying person's needs are not included in computing the AFDC grant.

(14) *The homeless.* A provision should be included in the food stamp program to clarify eligibility of the homeless. This provision was recommended by the President's Task Force on Food Assistance. Some states now prohibit persons without a fixed address from participating in the program.

(15) *Categorical eligibility.* There should be a provision in the food stamp program to make AFDC and SSI recipients categorically eligible to receive food stamps. This provision was recommended by the President's Task Force on Food Assistance.

STATEMENT OF JOHN PENDER, AGRICULTURAL POLICY ANALYST, BREAD FOR THE WORLD

Thank you Mr. Chairman and members of the committee. I am John Pender, agricultural policy analyst for Bread for the World. Bread for the World is a nationwide movement of over 47,000 Christian citizens seeking public policies which will help hungry people lead healthy and active lives. We appreciate this opportunity to express our views on issues you will consider in writing the 1985 Farm Bill.

Bread for the World believes that the policies enacted in the 1985 Farm Bill will have significant impact upon hunger in the United States and throughout the world. Decisions being made about international and domestic food assistance programs will directly affect hungry people. In addition, choices made concerning commodity programs, grain reserves, resource conservation and other aspects of food policy will have a direct influence upon the availability and security of food supplies, now and in the future.

OBJECTIVES FOR FOOD AND AGRICULTURAL POLICY

We believe that a fundamental goal which must be served by food and agricultural policies is to promote a world in which all people have enough to eat. This requires food assistance programs which work well to provide food to those in need. It also requires agricultural policies which contribute to the availability of an adequate and reliable food supply, while promoting a healthy, stable, and sustainable agricultural economy.

Bread for the World supports food and agricultural policies which promote:

Timely provision of international food aid to people in need, avoiding the use of food aid in a manner which fosters excessive dependency or which inhibits agricultural development in developing countries;

Provision of adequate food assistance to poor people in the United States;

Availability of a reliable food supply;

Stability in agricultural markets and in the rural economy;

Prudent use of our resources and an ecologically sound system of production; and

A healthy and resilient farm economy in which economic rewards and control of production and resources are broadly distributed.

Bread for the World has made several recommendations for the 1985 Farm Bill and other policies as one of sixteen farm, rural, religious, environmental, and other public interest organizations who helped prepare a report entitled *Beyond Crisis: Farm and Food Policy for Tomorrow.* This report contains many recommendations for improvements in commodity programs, credit programs, grain reserves, food assistance, conservation programs, tax policy and other areas to better serve the objectives I mentioned. We believe that the approach outlined in this report would not only improve present policy, but would be less costly.

INTERNATIONAL FOOD AID

The current crisis in Africa has made the extreme importance of well functioning food aid programs abundantly clear. Literally hundreds of thousands of lives can depend upon timely provision of adequate food, medical supplies, and other emergency needs. Bread for the World applauds the extraordinary efforts being made by private relief agencies and individuals to help famine victims in Africa and elsewhere. We also applaud Congress and the Administration for adopting emergency legislation to provide much needed additional assistance for the rest of this fiscal year.

Bread for the World believes that food aid must be provided in adequate amounts in a timely manner and with sufficient logistical support to ensure that the food is provided when and where it is needed. For this purpose, *we are urging Congress to appropriate $900 million for Title II of PL-480 in fiscal 1986* rather than $650 million, as the Administration has requested. While it is difficult to be certain what the exact need will be in 1986, it is fairly clear that $650 million (roughly half of what will be used in fiscal 1985) will be insufficient. Appropriation of only $650 million for Title II could result in needless deaths in early 1986 as food aid is possibly again delayed by a legislative battle to appropriate supplemental funds.

In addition to seeking a more appropriate level of Title II funding, Bread for the World endorses several proposals to promote more timely and effective provision of food aid, including

Providing cash resources to private relief agencies to help meet pressing needs of transport and program support,

Authorizing private agencies to establish food reserves in famine prone countries, and

Authorizing multi-year commitments of food to PVO programs.

While we strongly support a larger appropriation for Title II in fiscal 1986 than the Administration has requested, Bread for the World does not believe that "more is always better" with regard to food aid. We are concerned about negative effects that food aid can cause in recipient countries if provided in excessive quantities or without regard to its local impact. *Bread for the World believes that food aid should be carefully provided on the basis of need and developmental impact.* Large, long term increases in food aid may be counterproductive in many situations.

Bread for the World recognizes that food aid can have positive as well as negative developmental impacts. We feel that PL-480 Title III "Food for Development" aid is a valuable means of using food aid to promote development in recipient countries. We oppose elimination of the requirement that 15% of PL-480 sales agreements be under Title III, and believe that the terms of PL-480 sales agreements should encourage participation in the Title III program.

We also oppose changes in the Title I program, such as allowing repayment in local currencies, which will make this program more concessional and discourage the use of Title III. Such a change may contribute to irresponsible policy-making in recipient countries by encouraging them to "print money" in order to pay for imported food. The United States could thus amass large reserves of local currencies which couldn't be spent without causing significant disruption to the economy of the recipient country. This was a major problem in the early years of PL-480 when repayment was allowed in local currencies.

The safeguards provided in the PL-480 program to minimize potential adverse effects of food aid should be continued and implementation of these safeguards strengthened. These safeguards should also apply to donations of surplus agricultural commodities under Section 416 of the Agricultural Act of 1949.

DOMESTIC FOOD PROGRAMS

Recent work by the Physician Task Force on Hunger in America and other organizations have provided mounting evidence of the serious problem of hunger in the United States. The Physician Task Force found that hunger is a national epidemic affecting at least twenty million people, and that the dramatic rise in hunger in recent years resulted not only from economic dislocations but also because the programs assisting hungry people have been weakened. They concluded that Congress must take immediate action to strengthen our food assistance programs to reduce hunger in America.

Bread for the World concurs with the findings of the Physician Task Force. *We believe that adequately funded and effectively administered federal food and nutrition programs are vital resources that can be successful in eliminating hunger in the United States.*

Bread for the World, together with twenty nine other religious, consumer, farm, rural, urban, labor, and other public interest organizations, endorses the Comprehensive Nutrition Assistance Act of 1985 (H.R. 1856) introduced by Representative Leland and ten other Representatives. This bill contains several provisions to restore food stamp benefits to those in need, including provisions which:

Increase the earned income deduction from 18% to 20% of earned income;

Separate the Excess Shelter and Dependent Care Deduction and raise their caps to $175 and $160 per month, respectively;

Increase the financial resources limit from $3,000 to $3,500 for households with two or more persons, at least one of whom is age 60 or older, and from $1,500 to $2,250 for all other households;

Raise the allowable excess medical deduction for the elderly and disabled to $35 for 5% of monthly income, whichever is less;

Increase the basis for determining food stamp allotments to 101% of the value of the Thrifty Food Plan; and

Permit states to operate an optional monthly reporting and retrospective budgeting system.

The Comprehensive Nutrition Assistance Act of 1985 would also reauthorize and provide additional funding for the Temporary Emergency Food Assistance Program. This important program helps local food banks, soup kitchens, shelters for homeless people, churches, and other groups provide food to needy people. The increased funding provided in this bill would help these voluntary programs keep up with the large demand in their communities as well as targetting funds to unserved areas—particularly rural areas.

Bread for the World strongly supports the provisions of this bill as well as others that would improve and expand federal food assistance programs. There are several other improvements in domestic food programs which we seek to have incorporated into the Farm Bill. An analysis of these provisions, together with an analysis of the provisions of H.R. 1856, is included as part of our attached statement for the record. We believe these proposals can provide a vital contribution in the effort to end hunger in America.

We would also call your attention to the need to establish an ongoing, effective system to monitor the nutritional statue of U.S. citizens. Timely availability of nutritional status data is essential in planning food and agricultural policies. It is completely unacceptable that we do not yet have accurate and complete data on the extent of hunger in this country.

GRAIN RESERVE PROGRAMS

The policies which affect the supply and price of grain are very important to the situation of hungry people and farmers throughout the world. Without adequate reserves to draw upon, grain shortages are inevitable when world production falls short of demand. When this happens, those two suffer most are those least able to pay high prices for grain.

In the early 1970s, we saw the effects of inadequate reserves. Unexpected Soviet grain purchases and a worldwide shortfall in grain production rapidly depleted available grain stocks and led to a tripling in wheat prices. Food prices increased substantially and U.S. food aid shipments to developing countries were cut by two-thirds. These price increases and food aid cuts came at a time when many poor nations in Africa and elsewhere were suffering severe food shortages.

The price boom which occurred, while helping farmers in the short run, hurt them in the long run by contributing to the overinflated expectations of the 1970s which were a major source of the current farm crisis.

As we have seen, grain policies can have a substantial impact upon food aid. Large grain surpluses in the 1950s and 1960s contributed to a large flow of food aid, sometimes to the detriment of agricultural development in the recipient countries. In the early 1970s, rising prices and short grain supplies led to a two thirds reduction in food aid. Today, as grain surpluses have returned, food aid is again seen by some as a way to dispose of that surplus.

Bread for the World believes that food aid is not the appropriate vehicle to absorb surpluses and shortages in agricultural production. Well managed grain reserve and grain supply programs are critical, both to prevent surplus accumulation and to protect against supply shortages. Such programs would not only help to preserve the integrity of food aid and promote food security, but also to promote stability in the farm economy and conservation of agricultural resources.

To serve these objectives, Bread for the World seeks:

Reauthorization and replenishment of the Food Security Wheat Reserve;

Reauthorization of the Farmer-Owned Grain Reserve;

Reforms in the Farmer-Owned Reserve which will provide for adequate but not excessive carryover stocks; and

Better coordination of supply management with reserve policies in a manner which promotes food security, stability in the farm economy, and conservation of agricultural resources.

Bread for the World also seeks an internationally coordinated system of grain reserves. We do not believe that the United States should be the only nation using reserves to help stabilize the world supply of grain. However, we do not feel it would be responsible or in the best interest of U.S. farmers or consumers if the United States were to abandon its reserve policies out of frustration with the policies of other nations. Such action would not likely result in significant improvement in other nations' policies, and would expose U.S. farmers and hungry people throughout the world to much greater risks of market instability and supply shortages.

The Food Security Wheat Reserve.

The Food Security Wheat Reserve is needed to ensure that the United States can meet food aid needs when supplies are short and for emergency situations when food needs to be made available quickly. The importance of this reserve has been demonstrated recently, as the release of 300,000 tons of wheat from this reserve helped to maintain the flow of food aid to Africa while action of supplemental funding for food relief was pending in Congress.

The Food Security Wheat Reserve should be reauthorized and replenished so that it will continue to be available to safeguard the food aid program and for emergency purposes. While we strongly support the use of this reserve in emergency situations, we believe the program should continue to function primarily as a reserve and should not be used as a resource for regular programming of food aid or for other non-emergency purposes.

The farmer-owned reserve (FOR)

Bread for the World opposes the Administration's proposal to eliminate the FOR. The Farmer-Owned Reserve is needed to ensure reliable grain supplies and to promote stability in the rural economy. In 1983, U.S. corn production fell by 50%, largely as a result of a severe drought, and only by drawing heavily upon FOR stocks was a major shortage avoided. Corn released from the FOR accounted for more than one-third of the total U.S. corn supply in late 1983 and early 1984. Without this reserve, livestock production would have been much more severely disrupted, food price inflation would have increased, and corn exports would have suffered.

While Bread for the World seeks to have the FOR continued, we also see the need for reform in the program. In recent years, the FOR has been misused as an alternative to acreage control programs to raise support prices. FOR incentives encouraged farmers to store a large amount of grain in the reserve in 1981 and 1982, even though reserves were becoming excessive. By the end of the 1981/82 crop year, wheat carryover stocks had grown to 44% of total annual use and feed grain stocks had grown to 32% of annual use. Yet the FOR program offered reserve loans on the 1982 crop at a rate higher than the support price or market prices (the loan rate for wheat was $4.00 per bushel, 45 cents higher than the support price). Carryover stocks grew even further, reaching 63% of use for wheat and 44% for feed grains by the end of the 1982/83 crop year, well above what could be considered necessary for food security or any other purpose.

Following this excessive buildup of surpluses, the Payment-in-Kind program in 1983 idled 71 million acres of grain cropland—more than 35% of the land planted in grain in 1982. This program, together with the drought in the summer of 1983, did reduce the surplus. However, coming so abruptly and being of such magnitude, it caused a significant amount of disruption in the rural economy and was enormously expensive. It also contributed to excessive depletion of corn stocks and a serious threat to the security of food supplies.

We are proposing that the FOR be used to ensure an adequate but not excessive reserve stock in the United States. If total U.S. carryover stocks of grain fall below a minimum level necessary for food security, FOR incentives should be used to promote rebuilding of reserves to an adequate level. On the other hand, if carryover stocks exceed a maximum desirable level, incentives encouraging storage in the FOR should be kept to a minimum. By limiting the use of FOR incentives in this manner, adequate but not excessive reserves would be provided for. *Bread for the World believes the minimum carryover needed for food security is at least 20% of total annual use for wheat (about 500 million bushels) and 12% of annual use for feed grains (about 1 billion bushels).* The maximum U.S. carryover promoted by the FOR program should not be more than twice these levels.

This change would make the FOR program more effective and less costly. Storage payments to farmers would average about $300 million annually, much less than the cost of these payments in 1982 and 1983 when reserves were allowed to build excessively (the cost in fiscal 1983 was nearly $1 billion).

While we support changes in the FOR, we have some concerns about the changes in the reserve program proposed in S. 616. *Our primary concern with respect to S. 616 is that the changes proposed do not include provision for an adequate reserve stock.* Provisions which would eliminate the Secretary's authorities to encourage participation in the program by offering direct entry into the reserve, raising loan rates or reducing interest rates, irrespective of the level of reserves, would make it difficult for the Secretary to provide for an adequate reserve when stocks have been depleted. *We agree that the authority to offer reserve incentives should be limited when reserve levels are excessive, but we strongly feel that reserve incentives should be used to help ensure adequate carryover stocks of grain.*

Coordination of reserve policy with supply management programs

In addition to these changes in the FOR, *Bread for the World believes that grain reserve programs should be better coordinated with supply management programs and not used as an alternative to them.* Some cropland should be held in reserve when supplies are excessive to reduce surplus accumulation and recession in the farm economy. This cropland should be taken out of reserve when supplies are less plentiful and reserve levels are low. Administration of the program could be based upon the same target levels of carryover stocks used in the reserve program. Thus, if carryover levels are above the maximum desirable level, cropland would be held in reserve, but would be released from reserve if carryover levels were reduced to less than the minimum target.

Such a cropland reserve program, operated in a predictable manner and coordinated with the FOR would help to ensure a reliable supply of grain and reduce the boom and bust cycles in agriculture. It would also contribute to resource conservation, particularly if priority is given to conservation benefits in choosing land for the reserve.

While the cropland reserve would have important conservation benefits, it would not take the place of strong sodbuster legislation or of a conservative reserve program which would take the most highly erodible land out of intensive crop production and provide for more sustainable uses. Bread for the World supports these programs, together with other well targetted conservation programs, as critical to preserving the quality of our agricultural resources and the security of food supplies.

THE STRUCTURE OF THE FOOD SYSTEM

Bread for the World believes that a healthy and resilient farm and food economy in which economic rewards and control of production and resources is broadly distributed is critical for food security and for the health of American society. We feel that agricultural and other policies should at best promote such a food system, and at least, not encourage further concentration of economic power in the food economy. Towards this end, Bread for the World supports

Reforms in tax policies which encourage speculation in agriculture by nonfarm investors, growth in farm size and capital intensity, and disproportionately benefit larger and more wealthy farms;

Commodity programs which direct benefits to small and moderate scale family farms;

Agricultural creidt programs to assist beginning farmers and farmers with limited resources become viable and which help moderate scale family farms through periods of temporary financial difficulty;

Employment policies that guarantee minimum wage and safe working conditions to all agricultural workers; and

Research and extension programs that focus on resource efficient farming methods and that produce results adaptable to small and moderate scale farms, and a research initiative examining the relationships between the structure of agriculture and the social and economic health of rural communities.

Thank you for this opportunity to express our views on the important issues involved in the farm bill. We hope that our suggestions will be helpful in your efforts to enact food and agricultural policies which will help all people have enough to eat, restore and maintain prosperity in the rural economy, and ensure that our children will continue to enjoy the agricultural abundance that we have been fortunate to enjoy.

Statement of Bard Shollenberger on Behalf of Bread for the World

I. FOOD STAMP PROGRAM

A. Provisions included in the Comprehensive Nutrition Assistance Act of 1985

(1) Increase the earned income deduction from 18 percent to 20 percent of gross earned income.

This provision would repeal a previous funding cut aimed at the working poor—the lowering of the earned income deduction from 20 percent to 18 percent of gross earned income. The provision was enacted in 1981. The resotoration of the deduction will more accurately reflect the true cost of work-related expenses such as payroll taxes and transportation. The provision will serve as an additional work incentive for participants and would increase benefits to working food stamp households. Approximately 18 percent of all households in the food stamp program have wage earners. This provision was included in the Hunger Relief Act of 1984 (H.R. 5151).

(2) Separate the Excess Shelter and Dependent Care Deduction and raise their caps to $175 and $160 per month, respectively.

This provision was introduced last year by Representative Weiss (H.R. 5180) and was approved by the House during floor consideration of H.R. 5151. Representative Weiss reintroduced this provision on March 28 (H.R. 1844).

Currently, only one deduction is allowed for both excess shelter costs and dependent care costs. The total deduction may not exceed $134 per month. These deductions were combined in 1977 to prohibit households with high incomes from participating in the program. Combined deductions are no longer necessary due to the gross income eligibility limit of 130 percent of the poverty line which automatically eliminates households with higher income from participating in the program.

The provision would establish an independent excess shelter deduction in which food stamp households could deduct shelter costs in excess of 50 percent of their monthly net income, but not to exceed $175 per month. The provision would ease the burden for food stamp households who have high shelter costs by allowing a higher deduction and thus increasing food stamp benefits for these households.

The provision would also establish an independent dependent care deduction not to exceed $160 per month. The deduction would benefit the working poor and would provide a greater incentive for unemployed food stamp recipients to seek work or job training by allowing for a more adequate deduction for households that need to place young children and other dependent individuals in day-care situations.

According to the most recent USDA statistics on the characteristics of food stamp households, 70 percent of all households are headed by women and 58 percent of all households have children. It is also estimated that 3 to 5 percent of current participants would be eligible for the dependent care deduction.

Under current law, the Congressional Budget Office has found that 75 percent of all dependent care costs incurred by food stamp program participants cannot be deducted.

(3) Increase the liquid assets limits from $3,000 to $3,500 for households with two or more persons, at least one of whom is 60 or older; and from $1,500 to $2,250 for all other households.

This provision was recommended by the President's Task Force on Food Assistance in January 1984 and was passed by the House as part of H.R. 5151 in August 1984.

The current assets limit was set in 1971 and has never been adjusted despite inflation. The President's Task Force on Food Assistance and other studies have shown that many low-income households—particularly the unemployed—are being excluded from the program because the current assets limits are too low.

Raising the assets limits would allow the elderly living on fixed incomes and the "new poor" who have lost income due to unemployment or other circumstances to participate in the program.

(4) Raise the allowable excess medical deduction for the elderly and disabled to $35 or 5 percent of monthly income, whichever is less.

This provision would lower the threshold for medical deductions for the elderly and disabled to $35 or % percent of monthly income, whichever is less. The provision was introduced by Representative Morrison (CT) last year and was passed by the House as part of H.R. 5151.

Under current law, elderly and disabled food stamp participants are required to pay the first $35 in monthly medical expenses before beginning to calculate their medical deduction. For most of these participants, this is an undue hardship.

The mean gross income for households which include an elderly or disabled person and receives food stamps is $300 per month. $35 of medical expenses represents 12 percent of the gross income of these households. Under current tax law, people who claim a medical deduction pay only the first 5 percent of medical expenses before the remainder becomes eligible for the tax deduction.

For the average elderly or disabled recipient, the effect of the provision would be to have all medical expenses above $15 deductible for determining food stamp eligibility and benefit levels. Higher income recipients would have a higher threshold and lower income recipients would have a lower threshold.

(5) Increase the basis for determining food stamp allotments to 101 percent of the value of the Thrifty Food Plan.

This provision was included in H.R. 5151 which passed the House last year.

Under this provision, food stamp benefits would be based on 101 percent of the Thrifty Food Plan. The Thrifty Food Plan is the least expensive of four food plans developed by USDA. Studies have shown that few households are able to maintain a nutritionally adequate diet when purchasing food with the limits of the plan.

Raising food stamp benefits to 101 percent of the value of the Thrifty Food Plan will increase benefits for all households participating in the program. Current benefits average 49.6 cents per person per meal.

(6) Permit states to operate an optional system of monthly reporting and retrospective budgeting.

This provision was passed by the House last year as part of H.R. 5151.

The provision repeals the 1981 provision making monthly reporting/retrospective budgeting a mandatory federal requirement. Current law does allow the exemption of certain categories of recipients from monthly reporting/retrospective budgeting based on the acceptance of a waiver request from a state.

The provision will help both recipients and program adminstrators. Pilot studies have shown that most of the recipients who have been terminated from the program for failure to comply with monthly reporting met all other eligibililty requirements but had difficulty in filling out and submitting the reporting form. In many states, monthly reporting has also led to increases in administrative costs and paperwork and has not contributed to decreases in errors.

B. Other Food Stamp Program provisions recommended by Bread for the World

(1) Quality control. We support the position of the National Governors' Association and the American Public Welfare Association with regard to quality control. This proposal would reform current law and emphasizes improvements in program administration and operation not fiscal sanctions. The proposal also allows for state specific caseload characteristics in determining error rate tolerances.

(2) Base food stamp benefits prospectively to more accurately reflect the actual cost of food.

The original Hunger Relief Act of 1984 introduced by Chairman Panetta contained this provision.

This provision would base food stamp allotments for a given fiscal year on the projected average cost of the Thrifty Food Plan for that year, rather than current law which bases food stamp allotments on the cost of the Thrifty Food Plan for June of the prior fiscal year. Under current law, food stamp benefits fall 3 to 15 months behind the actual cost of food due to the delay in adjusting benefits to keep place with food price inflation.

Basing food stamp benefits prospectively is a more equitable basis for determining benefits and would assist participants in obtaining a more nutritionally adequate diet.

(3) Adjust food stamp benefits on a semi-annual basis. A less costly alternative to the prospective method of determining benefits mentioned above, would be to adjust benefits on a semi-annual basis to more accurately reflect food price increases. If this system were adopted, although it is less preferable than the prospective method, benefits would fall no more than 9 months behind the actual cost of food if benefits for the first six months of a fiscal year were based on the value of the Thrifty Food Plan for June of the prior fiscal year. Benefits for the last six months of the fiscal year could be based on the value of the Thrifty Food Plan in December of that fiscal year.

(4) Analysis of the Thrifty Food Plan. We recommend that a thorough analysis of the Thrifty Food Plan be undertaken to assess the ability of the Plan to meet the basic nutritional needs of food stamp program participants. Should the Thrifty Food Plan, and therefore food stamp benefits, prove inadequate, we would urge upward adjustment of benefits to more accurately reflect the food and nutritional needs of participants.

The Physician Task Force on Hunger calls for increasing food stamp benefits to the level of the USDA Low-Cost Food Plan—a 25 percent increase.

(5) Restore mandatory food stamp program outreach to inform potential program participants of the availability of the program and its eligibility requirements.

Prior to the Omnibus Budget Reconciliation Act of 1981, this provision was law. Currently, the federal government imposes no outreach requirement on the states. Studies have indicated that this lack of program information is a major contributing factor of low participation rates—particularly among the elderly, the "new poor," and poor people residing in rural areas.

A recent study conducted by the Center on Budget and Policy Priorities shows that while there are nearly five million more people living in poverty in 1984 than in 1980, food stamp program participation is down 300,000. While they state that there may be many factors for this decrease in participation, "the elimination of outreach may have been a modest contributing factor."

The food stamp program can made efforts to assure that poor people eligible for the program actually participate. Outreach should again become a mandatory program conducted by the states as an allowable administrative expense reimbursed by the USDA at a level of at least 50 percent of such costs.

Outreach activities could be targeted on populations reflecting serious levels of under-participation such as the elderly, the "new poor", and poor people residing in rural areas.

Variants of this provision were included in the original H.R. 5151 as introduced by Representative Panetta and in Senator Huddleston's S. 2607.

(6) Increase vehicle deductible value from $4,500 to $5,500. Congress placed the $4,500 limit on the market value of cars in the food stamp program in 1977. The purpose was to prevent households with luxury cars from participating in the program. Since then, used car prices have risen nearly 100 percent and the $4,500 limit has not been increased. The result is that an increasing number of households—particularly the unemployed—have been made ineligible for the food stamp program because their vehicle has put them over the food stamp asset limit.

Raising the liquid asset limits as recommended in the Comprehensive Nutrition Assistance Act of 1985 will help to remedy this situation but does not directly address this specific problem. The vehicle limit should be raised in the interest of equity and to help prevent hunger among unemployed people.

The President's Task Force on Food Assistance also recommended raising the vehicle limit to $5,500. They found that one of the reasons for the increase of hunger in the nation was that ". . . the recessions of the recent past have resulted in an increase in the number of new poor families, many of whom are needy even though they have assets that disqualify them . . . such as autos . . . Sometimes these assets are not readily marketable, and if the household has borrowed to purchase them, they may actually be a drain on the household's resources . . . we believe these households should be given greater access to the food stamp system."

This provision passed the House as part of H.R. 5151 and was included in Senator Huddleston's food stamp bill (S. 2607) and in Senator Dole's food stamp bill (S. 3017).

(7) Job Search. We are supportive of meaningful job search and work registration requirements for food stamp participants provided that they are not punitive in nature and can actually result in lasting and adequate employment.

We are concerned, however, about current job search sanctions that penalize children in households with an adult member that fails to comply with job search requirements.

We recommend that the food stamp program should adopt the sanction provision included in the AFDC program. Under the AFDC program, if the noncomplying member is a household member other than the principal wage earner, the entire household is not sanctioned. Instead, the noncomplying person's needs are not included in computing the AFDC grant.

(8) The Homeless. A provision should be included in the food stamp program to clarify eligibility of the homeless. This provision was recommended by the President's Task Force on Food Assistance and was included in H.R. 5151. Some states now prohibit persons without a fixed address from participating in the program.

(9) Categorical Eligibility. There should be a provision in the food stamp program to make AFDC and SSI recipients categorically eligible to receive food stamps. This provision was included in H.R. 5151 and was recommended by the President's Task Force on Food Assistance.

(10) Burial Funds. A provision should be included in the food stamp program to allow elderly recipients to maintain a separate account of up to $1500 for burial costs. Current SSI and Medicaid law allows such an account. This provision would allow for greater consistency between programs and would allow otherwise eligible persons to set aside funds for burial expenses. Current food stamp law prohibits some SSI recipients from participating in the food stamp program.

(11) Household Definition. A provision should be included to permit elderly persons to apply for food stamps as a separate household even if the elderly person lives with others whose income is above 165 percent of the poverty level, when they are unable to purchase and prepare their own meals.

Current law requires elderly persons who are unable to purchase and prepare their own meals to apply as a separate household. However, they can only be eligible to receive food stamps if the income of the caretaker household is below 165 percent of the poverty level. Elderly persons are currently being disqualified from the program when a caretaker moves into the home to care for them when they are no longer able to purchase and prepare meals (and other functions) on their own.

The provision would remove the income of the caretaker as a condition for determining household status and eligibility.

(12) Special Diets. A provision should be included to allow that additional expenses related to a physician-prescribed special diet be included as a deductible medical expense for elderly and disabled persons.

Many elderly and disabled persons are required to consume special diets which may be more costly than a normal diet. The extra costs of such special diets should be included as a medical expense, necessary to maintain health, to be deducted from income.

(13) Restaurant Meals. Current law allows elderly persons to use food stamps to purchase prepared meals at restaurants, senior centers, elderly housing projects and similar institutions which contract with the states to serve meals at concessionary prices. These restrictions limit the availability of meals to elderly and disabled recipients who have no cooking facilities or who lack access to other meal programs.

The provision would eliminate these restrictions.

(14) Miscellaneous Provisions. The following provisions should be included in the food stamp program:

Revise the definition of "disabled" to include individuals receiving state supplemental SSI benefits, and certain Veterans and Railroad Retirement benefits;

Provide additional food stamp benefits if a household experiences a sudden loss of income of $100 or more in a month;

Allow for a State option to issue food stamps on a staggered basis;

Require states to assess the need for extended office hours at food stamp offices.

II. TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

A. Provision included in the Comprehensive Nutrition Assistance Act of 1985

The provision would continue TEFAP and would provide a total of $65 million to support states and local organizations providing emergency food assistance and distributing surplus commodities to poor people. The provision would not change current authorizing language which allows that no less than 20 percent of the funding be provided to organizations involved in distributing surplus commodities to poor people. Reimbursements to local organizations also cannot exceed 5 percent of the value of the commodities distributed.

While we support this provision that extends TEFAP and provides additional funding for the program, we recognize that current law restricts the efforts to distribute surplus commodities to all of those in need.

B. Additional TEFAP provisions supported by Bread for the World

(1) Reauthorize TEFAP through the end of fiscal year 1989.

Studies by the Congressional Research Service indicate that under current policies there will be adequate supplies of most surplus commodities to extend TEFAP for the next several years.

The program provides much needed, high quality food product to poor people in need of additional food to help provide a more adequate nutritional diet. According to a spokesperson who works with food banks and other emergency food providers in California, TEFAP provides over 50 percent of the calories in the typical food package.

(2) Increase the minimum set-aside for food banks and local food providers from 20 percent to 50 percent.

Additional funding for local food providers will help to maintain this largely voluntary effort and would help to expand surplus commodity distribution to unserved areas.

(3) Change TEFAP from a reimbursement to a grant-in-aid program and untie administrative funding from the value of commodities distributed.

Currently, reimbursements to food banks and local emergency food providers can lag several months behind the actual distribution of food. This causes undue hardship among organizations and agencies many of whom are largely voluntary in nature.

The current funding restriction limiting reimbursements to 5 percent of the value of commodities causes many emergency food providers to either support the program with other—frequently unavailable—resources, or to severely limit the distribution of commodities. Some emergency food providers have dropped out of the program due to these funding restrictions.

(4) Expand and clarify eligible administrative activities and expenses to include the following:

Storage expenses including capital investments such as freezers or cold storage equipment. Current law requires prior approval from the states;

Distribution expenses including purchase of trucks or other moving equipment;

Federal or state required audits;

Advertising of distribution times, places and eligibility;

Referral services to other food assistance and social service programs;

Seed money to establish food banks and other emergency food assistance programs in unserved or underserved areas.

III. COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

A. Provision included in the Comprehensive Nutrition Assistance Act of 1985

In 1981, P.L. 95-98 authorized the institution of elderly feeding projectsfor the distribution of surplus commodities to help relieve chronic undernutrition among elderly poor people. These projects in Detroit, Des Moines, and New Orleans serve nearly 15,000 senior citizens with food packages specifically tailored to individual dietary restrictions and preferences.

The provision in the Comprehensive Nutrition Assistance Act of 1985 would reauthorize this program.

B. Other provision

A provision should be included to allow all other Commodity Supplemental Food Programs to provide food packages to elderly poor people. This provision was part of H.R. 5151.

IV. FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVATIONS

The following provisions should be included:

Increase administrative funding to tribes operating the program to provide for nutrition education activities, mobile distribution sites in rural areas and for increasing the number of distribution sites;

Require more culturally responsive foods specifically tailored to food preferences and special diets;

Improve quality control and administration at USDA regional warehouse level to ensure that all foods on order lists are available and that those available foods are nutritionally balanced;

Increase program flexibility to allow elderly tribal members who live off the reservation to be served.

V. EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM (EFNEP)

The Comprehensive Nutrition Assistance Act of 1985 would increase funding for this program to $70 million in fiscal year 1986. This funding level would allow EFNEP to expand its consumer and nutrition education services, with the additional funds provided to areas with high rates of infant mortality or hunger-related health problems.

ORGANIZATIONS ENDORSING THE COMPREHENSIVE NUTRITION ASSISTANCE ACT OF 1985

Bread for the World
United Church of Christ Office for Church in Society
Food Research and Action Center
American Baptist Churches U.S.A.
Friends Committee on National Legislation
National Council of Churches of Christ in the U.S.A.
Episcopal Church Washington Office
U.S. Conference of Mayors
American Federation of State, County, and Municipal Employees
National Conference of Catholic Charities
Mennonite Central Committee U.S. Peace Section Washington Office
American School Food Service Association
Children's Defense Fund
Washington Office Presbyterian Church U.S.A.
Public Voice for Food and Health Policy
Community Nutrition Institute
Interfaith Action for Economic Justice
American Public Health Association
National Council of Senior Citizens
Results
Coalition on Block Grants and Human Needs
National Anti-Hunger Coalition
Rural Coalition
National Farmers Union
United Food and Commercial Workers International Union
National Farmers Organization
Center on Budget and Policy Priorities
National Rural Housing Coalition
National Milk Producers Federation
National Association of Wheat Growers

STATEMENT OF JAMES W. SKILLEN, EXECUTIVE DIRECTOR, ASSOCIATION FOR PUBLIC JUSTICE

Thank you, Mr. Chairman, for this opportunity to address your committee.

The Association for Public Justice is a Christian citizens organization. Our members happen to be farmers, teachers, pastors, parents, lawyers, doctors, merchants, and people from just about every other occupation and profession. We are also consumers, parents, and people concerned with the well being of our neighbors in this and other countries. We are united by the conviction that we should be seeking to promote justice for all in the public arena rather than approaching our legislators simply as separate interest groups. Beyond our occupational and other interests, we want to promote a public interest in justice. We do not claim to have arrived at final answers about what constitutes justice in areas as complex as food and agricultural policy. But we are working to try to understand the kinds of policies that will best protect and promote healthy interrelationships among farmers and consumers, rural and urban sectors of society, domestic and international markets, the diverse means of food production and our ecological enviroment.

As a way to illustrate our concern concretely, I wish to make some very specific suggestions for the 1985 farm bill that would help to strengthen and upgrade the "Farmland Protection Policy Act" which was part of the 1981 legislation (PL 97-98, Subtitle I, Secs. 1539-1549). But since our recommendations on that issue are part of a much broader concern about the future of American agriculture, I want to set them in a larger context. The Agriculture Committee and its subcommittee will be hearing from other coalition members of the "Working Group on Farm and Food Policy," of which we are a part, as they address the structure of agriculture, food security, domestic food assistance, and resource conservation. Suggestions for dozens of policy proposals have been made in the Group's report, Beyond Crisis: Farm and Food Policy for Tomorrow. There is also more on the philosophy of stewardship and justice that undergirds my present remarks in our APJ position paper, Justice for the Land; Land for the Caring.

The credit crisis facing farmers today is receiving much attention, as it should. And no doubt the federal budget crisis will continue to generate fights over how much and where the government should spend on farm and food programs for the next four years. From the viewpoint of a public-interest concern, it is clear that the immediate survival of many farmers as well as the urgent need for a fiscally responsible government should be top priorities.

Yet we all know too well that these pressing crises are intimately connected with other government policies over which this committee has no jurisdiction—tax and monetary policies, defense spending, and foreign policy, to name only a few. We also know that these present crises did not fall from the sky yesterday. They are rooted in years and decades of programmatic developments.

The challenge for you in 1985, therefore, is to try to fashion a farm bill that genuinely meets current crises (saving farms, farmers, and federal tax dollars) while laying a programmatic basis for ongoing agricultural development that will be able to put crises behind it. And you must try to do all of this while having access to only one small part of federal policy-making responsibility, namely, agriculture policy.

Precisely because this committee is limited in what it can do, we believe the most important decisions you will be making are those related to the long-range structure of agriculture based on conservation and preservation policies that stand (or ought to stand) at the foundation of all particular commodity, credit, and research programs.

What we know today after more than two decades of production-oriented federal farm programs is that a very small number of farmers with huge machines and great quantities of fertilizer and pesticide can produce far more food and fiber than Americans can use. We also know, however, that these programs frequently leave us nearly helpless in face of international, economic, ecological, and demographic limits to which we have paid too little attention in our policy making.

We cannot compel foreigners to buy our overproductive abundance.

We cannot make the soil reproduce itself faster than we are destroying it.

The ground cannot filter our water faster than we are polluting it.

The ecosystem cannot produce underground water faster than we are draining it.

Farmers cannot force land values up to where they can always be assured of securing needed loans based on the land's equity.

Present land-use and zoning policies do not, for the most part, prohibit the loss of prime farmland to nonagricultural uses.

Our overproduction is related, in part, to capital intensive technology that displaces labor (which should be used) with energy (that should be conserved).

Reckless production-oriented policies have helped to produce investment and borrowing decisions that are going to force thousands of our most valuable resources—the farmers themselves—off the farm.

Rural America, which provides the human social context in which agriculture can flourish, is threatened by technological and development policies that may make it less and less attractive or even possible for good farmers to pursue an agricultural vocation in the future.

I cannot stress strongly enough that the short-term emergency decisions you make this year are not nearly so important as the long-term structural conditions you establish for the next decade and beyond. Both must be done, but the economic pressures of the moment will make it seem that nothing beyond today is important.

If you don't resist that pressure, our children will face more unresolvable problems ten and twenty years from now than we do today.

With farmland prices down today, with many farmers going out of business, with the federal government pinched for cash, and with great surpluses on hand, few think it is timely for you to concern yourselves with the loss of farmland or to waste money we don't have on soil conservation. But now is precisely the time to get serious about the future. It will never be easier than today.

Now, with surpluses abounding, is when we ought to be fixing fast the provisions against any further sodbusting of marginal lands, so that when greater production is needed in the future, we will not foolishly push farmers into destructive practices.

Now, while we still have much prime farmland in out hands, is the time to push soil and water conservation, not a decade or two from now when we begin to have trouble distinguishing what used to be prime land from marginal lands.

Now, with farmland prices down, is precisely when agricultural land should be marked off from other kinds of land, just as we have begun to do with wetlands and forestlands, so that when the next surge in land speculation begins, farmland will not get caught in the same spiral it did in the recent past.

Now, as we see for the first time in decades more people moving out of, rather than into, urban areas, is when states and localities should be encouraged to zone farmland in anticipation of the day when farmland is being sold off to nonagricultural uses not just one small farm at a time but in huge hunks by the largest landowning enterprises.

Now is when we should be trying to stop the loss of irreplacable water, soil, and farmland. A decade or two from now the cost of conservation will be ten or twenty or a hundred times as great.

Now is the time to change tax and investment policies to stop the foolish encouragements of wasteful or destructive uses of water, land, plants, and animals. Now is the time to cancel the encouragements given to the kinds of concentration and specialization in agriculture that make it increasingly impossible for the average-size farm to compete with the "megafarm" and the "supercorporation," especially since the typical family farm is just as efficient and frequently even more stewardly than the giant enterprise.

Yes, I know that the federal government cannot zone private or State or local lands. Yes, I know that soil and water conservation can only be coaxed along by the federal government rather than forced directly. Yes, I know that the agricultural committees in Congress do not set tax policies. No doubt there is much that is good about these limitations, and some of my remarks before this committee are undoubtedly misdirected. But, if any of what I have said is true, then in has an important bearing on how your committee should try to shape federal agricultural policy.

Shouldn't the Department of Agriculture be doing everything possible to make clear the urgency of long-range stability and conservation in agriculture, including the long-range survival of the only people who know this art and science of farming—the farmers? Do we really imagine that no matter how careless and destructive we are now, some new technological solution will automatically come along and give us plenty of food and water at a good price? Do we seriously think that capital-intensive technological research coupled with supposedly free markets are all we need to guarantee profits and an ever expanding farm economy no matter how we abuse rural communities and natural resources?

Why is it that the present administration and many in Congress can get excited about spending billions of dollars for research on a "star wars" experiment that might not even work, in the hopes that maybe in a decade or two we might have a new defense tool? Why? Because everyone wants national security. Any why was Congress able to beef up the social security system recently against possible collapse decades into the future? Because everyone hopes for stability and security in their senior years. Yet is it not the case that food and water constitute the most important foundations for securing life? Knowing all that we know about the ecological, social, and economic limits of the creation, and knowing all that we know about the causes of African famine and world hunger, does it not behoove us to make as a top federal priority the kind of agricultural research and the types of serious conservation measures that will help to secure farmers, food, and clean water for us and our global neighbors in the decades ahead?

Against this backdrop of broad concern for the structural conditions of a healthy agriculture, allow me to present a few specific policy recommendations aimed at strengthening and expanding the "Farmland Protection Policy Act" (FPPA) of the 1981 farm bill.

1. First, we suggest that your committee try to connect more closely two of the responsibilities of the Department of Agriculture (USDA). One of those is "farmland

protection" (as outlined in the FPPA), the other is "resource conservation and development" (RCD, as outlined in PL 97-98, Subtitle H, Secs. 1528-1538). The RCD program focuses on federal assistance to State and local governments and local nonprofit organizations to promote conservation programs. The FPPA focuses on the federal government's own misuse of farmland. We believe that farmland protection should be an integral part of conservation and agricultural development nationwide. Even though the federal government cannot direct or police local and State land-use decisions, it certainly should orient its own self-policing in a way that can be of more integral and direct assistance to local and State governments. We would suggest giving more attention to farmland protection in the RCD program and more attention to local and State needs in the FPPA.

2. One example of what I have just suggested would be to reword Sec. 1540 of the FPPA to say that the USDA should make it a high priority to promote nationwide recognition of the unique values of distinct types of land—not only farmland but also wetlands, forestlands, etc—since all of these lands become subject to competitive development goals. In other words, farmland is not something isolated and disconnected from other types of land, nor is it the federal government's use or misuse of farmland a phenomenon isolated from its use or misuse of other types of land. While the FPPA should retain a farmland focus, it should be worded to say that the federal government's self-policing responsibility with regard to land-use decisions should be carried out in a way that protects the best use of all lands and in a way that leads to maximum useful information and advice for local and State governments in carrying out conservation, development, and land-use strategies.

3. In Sec. 1541 of the 1981 law, the mandate was to develop criteria "for identifying the effects of Federal programs on the conversion of farmland to nonagricultural uses." We recommend that these criteria not only be strengthened along lines recommended by several evaluative studies that the Department of Agriculture has received, but also that they be published and promoted in ways that will be of direct use by local and State governments as well. The effects of federal programs are probably very similar to the effects of State and local programs on farmland conversion. Moreover, we would suggest that the phrase "federal programs" should not be left open to too narrow an interpretation, but should be defined to include tax and other policies that have a great effect on land-use decisions.

4. Sec. 1541 (b) should be reworded to say that the Federal Government "shall be required to use the criteria" rather than simply that it "use the criteria."

5. Sec. 1541 (c) should be reworded to say that USDA "should regularly and systematically" provide useful information to the States (and others), rather than simply that the USDA "may" provide such information.

6. Sec. 1543 should be reworded to say that the Secretary of Agriculture is "mandated" not simply "encouraged" to provide assistance to others for the purpose of farmland protection.

7. We recommend that once this committee is satisfied with the USDA's "criteria" for evaluating federal land-use decisions, it then require that each federal department and agency file annual reports on its land-use actions in the light of those criteria.

8. We further recommend that Sec. 1547 (b) of the 1981 law be eliminated or reworded. Of course, if the Department of Defense needs some prime farmland for specific and essential national defense purposes which cannot be achieved through the use of any other type of land, then the DOD should be allowed to proceed. But even here we should be talking about a relative priority for which a case has to be made, rather than about carte blanche that allows the DOD to do whatever it wants without land-use considerations.

9. Finally, we recommend that Sec. 1548 be repealed. Once adequate criteria are established by which the federal government can evaluate and control its land-use decisions, then it should be possible for other branches of government and other organizations and individuals to challenge (through either "legal or equitable" means) federal programs that needlessly and negatively affect farmland.

STATEMENT OF EDWARD N. DELANEY, PRESIDENT, NATIONAL TAX EQUALITY ASSOCIATION

Mr. Chairman, Members of the Committee, the National Tax Equality Association appreciates the opportunity to present our views on 1985 farm legislation. Undoubtedly, the decisions you make this year will determine whether the nation's farm industry prospers in a self-reliant manner or continues to rely on extensive government interference and subsidization.

The National Tax Equality Association is a business supported tax reform and deficit reduction advocacy group with about 1500 business firm members. About one-third of our membership is involved in farm related products or services. Today, we will discuss proposed 1985 farm legislation, the impact on the deficit of current farm policy, and some ideas for long term solutions to the agricultural economy's problems.

1985—THE YEAR FOR MARKET ORIENTATED CHANGE IN FARM POLICY

It is obvious that continued government attempts at fine-tuning the farm economy have not only failed in their objectives to increase net income to independent family farmers, but have failed at great expense to the taxpayer at a period when we can least afford it. When one considers that Commodity Credit Corporation Price Support Payments went from $2.7 billion in 1980 to $20 billion in 1983 and total outlays for the agriculture budget function soared from $8.8 to $23 billion, one understands that review of these policies is necessary.[1] Even more disturbing than the total dollar expenditure figures is evidence that the transferred tax dollars did not really serve their intended purpose, and in fact much of the money was paid to those farm entities that need assistance the least. Nearly 40% of farm price support payments in 1985 will go to the largest 10% of all farms, many of which are large corporate entities.[2] Net income for this group equals an averageof $84,000.[3] Do these farms really need a huge transfer of tax dollars? Even with the explosive rate of increase in farm support outlays, the financial situation of many family farmers has grown worse. With much of the price support income accruing to the largest farms, income stabilization programs have had little impact on small and mid-size farms that many in Congress assumed they were helping.

The problems associated with current farm policy as outlined above can be drastically reduced by a change to market orientated policies such as those outlined by legislation introduced by Chairman Helms. The Chairman's legislation provides for smooth transition from fifty years of price and supply management to limited interference and a more competitive system. Providing flexible commodity loan rates tied to a market-based system will have important impact on improving our competitiveness in world markets.

Concerning legislation affecting target prices, we believe that Congress must make a decision as to the purpose of price supports. The taxpayers cannot afford to continue to subsidize all types of commodities and farms of any size. If a national policy of support for family farms is desirous, then aid must be targeted to small farms as income maintenance without disrupting market forces.[4]

INCREASE FARM INCOME AND REDUCE EXPENSE

The greatest contribution that this Committee and the Congress could make to improve the farm economy and individual farmer income is to pass a budget for FY 1986 with at least $50 billion in deficit reduction. We urge each member of this committee to support the White House/Republican Leadership compromise budget package without amendment. Real reductions in the deficit over the next few years will reduce pressure on interest rates, a major cost factor for the family farms under the greatest degree of financial stress, and contribute to a stabilization or reduction in the strength of the dollar. As most of you are well aware, the unprecedented strength in the dollar serves as a major impediment to agricultural exports. Not only by limiting direct sales of our farm products overseas because of price considerations, but also because of the pressure for trade restrictions that would surely invoke retaliation against agricultural exports. The White House/GOP plan proposes overall savings for agriculture that are about 50 percent less than originally proposed by the President. The Administration's original plan would have saved over $2 billion in 1986 and $16 billion over three years in price support reforms. The new plan calls for savings of $8 billion over three years.

Because exports are vital to a healthy ag-economy, (exports accounted for 55 percent of crop sales in 1981) we urge continued government support of export activities for the short term. Most commodities have lost about 10% of overseas market share, with the dollar value of exports dropping from $43.8 billion in 1981 to a projected $34.5 billion in 1985.[1] Toward the goal of improved exports, we believe Chairman Helm's legislation should be strengthened to include expansion of funds for export credit guarantees, a bonus program for foreign buyers who contract specific quantities and consideration of new tools to allow American farmers to compete with foreign governments that unfairly subsidize their products. The White House/GoP deficit reduction plan would not restrict increases in outlays for various export initiative plans now provided by the Commodity Credit Corporation. In fact, in the original budget document submitted last January by the President, export credit guaranteed loan new commitments were slated for an increase from $4.2 billion in 1984 actual outlays to an increase to $5 billion in 1985.[2] It is generally assumed that the Administration is willing and interested in increasing farm exports and would entertain proposals to accomplish greater exports.

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[1] Executive Office of the President, Office of Management and Budget, *Historical Tables—Budget of the U.S. Government FY 1986*, Table 3.25.

[2] William Orzechowski, Director, Federal Budget Policy, Budget Policy, U.S. Chamber of Commerce.

[3] Ibid.

[4] For more detailed discussions of targeting, see testimony of former Secretary of Agriculture, Bob Bergland, before the House Committee on Agriculture, February 28, 1984.

FARM ECONOMY DEREGULATION FOR FAIR COMPETITION

Over the years, Congress has directly or indirectly favored the economic interest of one group over the other, to the disadvantage of small businesses in agriculture.

NTEA believes that a strong and viable small business community in agriculture can contribute much to general improvement of that sector. As we have witnessed in the past few years of economic recovery, smaller firms, including those with fewer than 100 employees, have created a greater portion of new jobs than larger firms. One of the reasons for this remarkable achievement is the innovative and cost-cutting characteristics of small, labor intensive firms. They are for the most part, efficient operators.

Unfortunately, in the farm service sector, new businesses and older small businesses have been discouraged from full participation because of government policies favoring large producer associations.

While these associations were originally designed to operate on a non-profit basis returning all proceeds to the farmer members, serious questions can be raised as to the current mode of operation and the resulting benefits actually passed through to the farmers. Congress should consider limiting the Federally provided benefits for the very large associations or cooperatives that appear to function more as a separate corporate entities than membership organizations. Why should taxpayers subsidize plant and equipment investments which encouraged increased production of commodities that the government must buy to support prices? Are farmers better off with their hard-earned dollars invested in plants, or would they benefit from increased cash allocations from products marketed by the cooperative on their behalf of the farmer? We hope the Senate Agriculture Committee will take the time necessary to investigate these important questions during debate on 1985 farm legislation.

If smaller or new firms had the opportunity to compete on a level-playing field with producer associations, the increased competitive environment would lead to lower input prices on goods and services for farmers. Certainly, the current Congress would be expected to provide proprietary processors, manufacturers, and distributors equal opportunity under a fairly regulated system.[3]

In addition to Congressional study of these issues, we would like to recommend the following actions to move the agricultural economy toward fair competition.

1. The Secretary of Agriculture should use his authority under Section 2 (7 USC 292) to prevent the spread of monopoly and market domination which is destructive of proprietary business, adversely affects consumers, and is not necessary to maintain producer income and orderly marketing. The very definition of orderly marketing presumes numerous sellers and lesser numbers of buyers. However, as a result of the merger movement of 1965–83, there have been so many consolidations that there are few sellers in most markets, and fewer buyers. The producer association has become the corporate seller. However, to the farmer producers, it is the corporate buyer. Commodities are purchased by the processing divisions of cooperatives. Even where the co-op has no processing or manufacturing plants it many times is the only handler of the farmer's produce. As far as the farmer is concerned, he is

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[1] United States Department of Agriculture, *Export Trends: World and U.S.*

[2] Executive Office of the President, Office of Management and Budget, *Budget of the U.S. Government.*

[3] For more details on small business and fair competition with non-profit associations in agriculture, see the following reports: a. Charles River Associates, Study for Agricultural Research/Study Foundation CRA Report No. 574: b. National Tax Equality Association Statement to the Small Business Administration Examination of Non profit Competition—1983.

faced with the same dilemma of the 1920's. He and his neighbors are small sellers of perishable products, facing one or two large corporate-cooperative buyers. 2. Congress should amend Section 2 establishing a premerger notice requirement and hearing requirement for determining the extent of price enhancement caused by anti-competitive producer association mergers. Congress should specify that the Secretary has authority to act to prevent monopolies which have as their ultimate objective undue price enhancement—NOT IN THE PUBLIC INTEREST. NTEA recommends that Congress clarify that the Secretary be able to issue restraining orders pending full hearings on mergers or acquisitions which may violate Section 2.

The assistance of the Department of Justice and the Federal Trade Commission should be required to carry out this authority. The alternative to these amendments to (7 USCF 292) is to grant equal enforcement authority in the Attorney General under Section 292.

IN SUMMARY—BASIC CONCEPTS FOR A STABLE FARM ECONOMY

To summarize, we need to review the concepts behind the move to a market economy in agriculture. Generally, what should Congress do in 1985 to help achieve an agriculture industry that creates the structure needed to benefit the greatest number of our people—those who earn their livelihood in producing and those who consume the products?

The answer is relatively simple although it may not be palatable to everyone:

The marketplace must decide who is to be a farmer, where he will farm, and what he will produce;

The marketplace shall determine prices, profitability, and income of farmers;

The marketplace will provide the longterm stability for the industry by removing excessive political influence in annual or biannual legislative marathons.

The difficult question is how do we get from here to there. Not everyone whonow farms will be farming in the future and this is true no matter what Congress does, even if nothing this year. The least expensive transition must be created and put in place.

The true meaning for the words market stabilization, disorderly markets, and adequate supplies have been distorted and abused. Laws cannot be enacted on worn out concepts. Markets that are disciplined by the rules of supply and demand don't need to be stabilized. Competition is not disorderly or chaotic, and adequate supplies do not mean open ended invitations to purchase unlimited quantities, or to guarantee prices or loans.

Farmers have financial difficulty today partly because they have been farming land which has been value enhanced by government money programs and forced to attempt to sell commodities at prices which don't relate directly to the real cost of production. While inflation, embargos and high interest rates are to blame the most for many of today's farmers, it is time for Congress to halt the government manipulation and seek economically sound farm policies.

Congress can give the greatest benefit to the largest number Americans by setting in motion, irrevocably and irresistably, the journey toward minimum Federal Government in the industry of agriculture.

DIEHL FIELDS,
Dansville, MI, March 4, 1985.

Senator CARL LEVIN,
U.S. Senate Office Building, Washington, DC.

DEAR SENATOR LEVIN: Your visit to the Michigan Commission of Agriculture meeting was much appreciated. It is good to know that our main man in Washington has a real interest in the agricultural problem.

A method of helping farmers in trouble which is just beginning to be used by the Federal Land Bank makes a lot of sense to me.

Basically, it operates as follows: let us take for example the case of a farmer owning 400 acres with F.L.B. 1st mortgage. The land bank would take title to 200 acres, leaving the farmer with buildings and home. His debt would be reduced accordingly, leaving the farmer with payments and debt he can manage. The land bank then leases back the land to its former owner with an option to buy it back down the line. The Land Bank recovers a large percentage of lost interest with the leaseback. Balance of interest buy down could be funded with federal funds. Amount of money could be but a drop in the bucket compared to some other ideas that have been proposed. The same program would be used by local banks and not affect their stability.

The idea of advancing half of fall crop loans in the spring, in my opinion, would have very small net cost. With current bases in ASCS offices, very few farmers would need to default on these loans.

In the long pull it seems to me that the American public will have to pay for their food. The answer to this is hard to sell, but I ask you why should the American wage earner buy its food cheaper than anybody in the world by 25% and force the American farmer, who is the most efficient in the world, out of business?

This builds up to the long-range plan which I think we need—a two-price plan to compete with programs used by Canada, European Common Market, Japan, Australia, and China. This plan would work as follows:

Using present bases for individual farms on record with ASCS, a production base for each crop and livestock type based on U.S. consumption would be established. For this base, the farmer would receive a comparable return per-bushel or per-head to what a worker makes per hour or an investor makes per dollar of investment.

Any production which any farmer has which is over his share of what will be used in the U.S. market would be held by the farmer at his expense or sold on the export market at world market prices. I am certain that many farmers would opt to produce only that portion to be sold in the U.S. Those, who, probably like ourselves, prefer to go all out, will have a base for U.S. consumption and gamble on the long-term market.

I am sure there are bugs to be worked out, but it seems to me to make sense for the long pull.

If any part of it makes sense to you, and you wish to discuss it further, I am available to meet with you and others either here in Michigan or in Washington.

Thank you for your interest in our problem—I am sure we are to blame for some of our difficulties, but not for high interest rates or high value of the dollar.

Sincerely,

DAVE DIEHL,
Chairman, Michigan Agricultural Commission.

P.S. Speaking of interest, we paid over $600,000. in interest in 1984. A 4 percent lowering of our interest rate would have increased our income $200,000.

STATEMENT OF ILLINOIS SOUTH PROJECT, HERRIN, IL

This testimony is submitted by Illinois South Project to support Title 1, Agricultural Commodity Supply Management, of the Farm Policy Reform Act, S. 1083, submitted to the U.S. Senate by Senators Harkin, Zorinsky, Exon, and Sasser.

Illinois South Project is a non-profit organization, located in Herrin, Illinois, that works for the stewardship and responsible development of Illinois' natural resources. It promotes economic stability for small and medium-sized family farmers and works to keep productive farmland in the hands of family farmers rather than large, non-farm corporations.

We find that the legislation proposed in S. 1083 is congruent with these aims. If enacted, this bill, and centrally the strong production controls, marketing quotas, government loan rates, and conservation set-aside it mandates, if approved by producer referendum, will achieve major goals we believe should be embodied in agricultural legislation. These goals include: (1) to promote good stewardship of the land, (2) to provide economic stability for family farmers and for rural communities, and (3) to distribute the associated costs widely and equitably throughout society.

(1) Strong production controls with conservation set-aside, marketing quotas, and loan rates based on parity prices of commodities, will promote good stewardship of the land in at least two ways:

(a) Low prices, caused in part by overproduction, force individual farmers to plant all available ground in order to increase the marginal returns on investment. This causes short term mining of the soil with serious long-range consequences. The necessity to plant "fencerow to fencerow" is demonstrated in Illinois by the increased acreage turned to production of row crops and a decrease in acreage used for hay and for conservation practices.

In Illinois, according to figures provided by the Illinois Department of Agriculture [1], land in farms declined from 31.7 million acres in 1950 to 29.1 million acres in 1975 and 28.7 million acres in 1982—a loss of 3 million acres, or nearly 10 percent. Between 1975 and 1982—a period when production controls were progressively removed—total cropland actually decreased by 400,000. At the same time, acreage planted to row crops rose by more than a million acres. During these seven years, acreage planted to hay declined by 120,000 acres, and farmland in all non-row crop uses (e.g., hay, pasture, woodlots, fallow) declined by more than 1.5 million acres.

According to Steve Probst, Illinois Assistant State Conservationist, quoted in "Prairie Farmer," April 20, 1985, "Roughly 1 million acres in Illinois is being row cropped that should not be." The increase in acreage planted to row crops was reflected in increased yields of 291 million bushels.

The combination of low prices, removal of production controls, and lessened government support for conservation practices is clearly exacerbating the problems of soil erosion and of soil and water quality degradation.

Enforced set-asides of acreage formerly in row-crop production, with payment for carrying out approved conservation practices, would equalize the needed decrease in production and permit farmers to maintain long-term fertility of their soils.

(b) Excessively low commodity prices, caused in part by overproduction, makes "tax farming" the only profitable form of agriculture. While this is primarily a problem of tax policy strong production controls and marketing quotas targeted to benefit medium and small-sized farms, as proposed in the Farm Policy Reform Act, will make such investments less attractive to the non-farm investor.

Investor ownership of farmland not only erodes the economic base of rural communities, but also encourages short-sighted and wasteful land management. The 1977 National Resource Inventory conducted by the Soil Conservation Service, and the 1978 Land Ownership Survey conducted by the USDA[2] revealed that nearly one third (31.1 percent) of all U.S. cropland was owned by nonoperator landlords. Inflation made farmland a hedge against inflation and sharply declining land values are now making farmland attractive to non-farm investors. Additionally, large corporations, such as life insurance companies, pension funds, and energy conglomerates, are investing heavily in prime farmland. Corporate and individual investors in the 50 percent tax bracket can depreciate capital investments and obtain other tax benefits against their primary sources of income. They therefore require a far lower return on their actual investment in agricultural production then do full-time farmers.

Investor ownership of farmland not only threatens the integrity of the family farm system of agriculture and the rural communities this system sustains, but also causes increased degradation of soil and water resources. Investors, seeking high levels of capital investment to write-off, invest in such expensive technologies as extensive irrigation systems, which threaten regional water tables and deplete aquifers. In the semi-arid Great Plains, center-pivot irrigation, affordable only by the largest farmers and by non-farm investors, brings fragile grasslands under cultivation, opening the ground to serve erosion and depleting the Ogallala Aquifer. In Illinois and Indiana, Prudential Life Insurance Company's extensive investment in farmland and irrigation systems has lowered the water table to a point where area wells have run dry and water has beome polluted. Similar investments in forest clearing, swamp drainage, tiling, and so forth not only bring marginal lands into production, but have negative impacts on wild-life habitats, flood control and drainage systems, and on the communities and states which must bear the long-term costs of such ill-advised private developments.

Investor owners have little incentive to invest in conservation practices. A study by the Economics and Statistics Service, USDA[3], found that "in most areas studied, owners who operated their land or who used share leases on land rented out were more likely to have invested [in soil conservation practices] than owners who rented out all land using only cash leases." This study found a trend "toward increase in the percentage of all farmland that is owned by nonoperators and in the percentage of rental land that is farmed under cash leases."

(2) A second major goal of U.S. agricultural policy should be to promote economic stability for family farmers and for the communities which they sustain. Luther Tweenten, in "The Economics of Small Farms," (Science, Vol. 219, March 4, 1983, p. 1041) states, "Numerous studies of farm-community interactions reveal that moderate size farms are most closely consistent with the well-being of rural communities. Middle-class families support churches, schools, clubs, and commercial businesses. Although the optimal size of a farm, if there is one, varies widely and no one size fits all conditions, the size of farm consistent with increased well-being of society as best measured with our crude tools is neither a small nor a very large farm but rather is a moderate-size family operation."

The Farm Policy Reform Act of 1985, S. 1083, will promote this stability through regulating production, maintaining adequate and predicatable supplies, establishing market prices keyed to parity prices, and targeting moderate-sized family-operated farms. In a context of relative stability and predictability, farmers and other rural businesses and services will be able to make sound investment decisions without undue speculation or overwhelming risk.

(3) Illinois South believes that the costs of good stewardship and community stability should be widely and equitably shared in the society. S. 1083, and particularly Title I, meet these goals:

(a) The program is relatively inexpensive to the government. By removing target prices and deficiency payments, a major income supplement expense is removed from the government. Under this bill, the cost of disaster insurance is borne by producers, not government. These reforms will save the Federal Treasury approximately $20 billion a year. The major expense that goverment must retain is investment in conservation practices. This properly should be assumed by the society as whole, to provide a legacy to future generations and to sustain the soil and water quality on which we all depend.

(b) The cost of increased earnings to farmers is spread throughout the society through modestly higher costs to consumers. The combination of mandatory production controls, marketing quotas, and non-recourse loan rates keyed to parity prices will effectively raise commodity prices to levels where farmers get a fair return on their investment and labor. The costs, spread throughout the society through the marketplace, will raise consumer costs an estimated 4 percent in the first year—about $13 billion—and an additional one-half percent annually for the next decade. This is far less than comparable increases in utility, housing, fuel and other costs. Added burdens on poorer members of the society would be met through supplementary benefits, as embodied in Title V.

(c) Production controls and marketing quotas targeted at moderate-sized family farms permit sustained operator ownership of land. This encourages the maintenance of productive populations in rural areas, thereby reducing burdens of added social services, particularly welfare and health services, in both rural and urban areas.

(d) A health rural economy, in which agriculture provides the base for other manufacturing and service enterprises, increases the general wealth of rural communities. The prosperity provided by this Bill will therefore enhance the tax base at all levels of government.

(e) Strong production controls coupled with good conservation practices will assure the transmission of resources to future generations.

S. 1083, and its key provisions in Title 1, promote the major goals we believe should be embodied in agricultural legislation: good stewardship of the land, economic stability for small and medium-sized family farmers and rural communities, and maintenance of the family farm system of agriculture.

Illinois South Project therefore urges the House Agriculture Committee to adopt the commodity supply management program embodied in Title 1, S. 1083, the Farm Policy Reform Act of 1985, submitted by Senators Harkin, Zorinsky, Exon, and Sasser.

FOOTNOTES

(1) Illinois Agricultural Statistics Annual Summary, Bulletin 84-1. Illinois Department of Agriculture, Illinois Crop Reporting Service, 1984.

(2) Lee, Linda K., Linkages Between Landownership and Rural Land. Natural Resource Economics Division, Economic Research Service, U.S. Department of Agriculture. Report No. AIB-454, 1983.

(3) Baron, Donald. Landownership Characteristics and Investment in Soil Conservation. ESS Staff Report No. AGES810911. Economic Research Service, U.S. Department of Agriculture. September 1981.

STATEMENT OF UNITED FARMERS ORGANIZATION TO THE SOUTH CAROLINA DELEGATION, JANUARY 14, 1985

We are an organization of family farmers and our supporters. We have come together out of our common concern for one another's survival and the survival of family farm agriculture. We represent a broad base of family farmers—farmers of all ages and races, both men and women, different sections of our state and all types of farming.

We were unable to obtain the opportunity to speak before you here today. We submit this written testimony and recommendations for your earnest study and action. We would like to announce that We wish to meet with each of the South Carolina Delegation in the coming month, and that We will be contacting your offices to arrange mutually agreeable times. Many of you answered our Agricultural Questionnaire prior to your recent re-election. We wish to personally discuss these questions and your answers concerning the all important 1985 Farm Bill, and how you can help to bring the renewed strength and vigor needed for family farm future success.

Agriculture is vitally important to the South Carolina Economy. This is a very critical year for our Industry here in this State, as well as, across the nation.

This is a time when We have suffered three record breaking droughts in the past eight years; not only in terms of loss of income, but with enormous debts. This debt load coupled with prevailing high interest rates, and decreasing land prices would be a heavy burden even during good times. Today, with sagging commodity prices, high costs of production, and a weak National Agricultural Policy; the burden is and has become unbearable for many farmers. Many will continue to be forced off the land that has been passed down from generation to generation. This does not just effect one farmer and his family but the entire allied agribusiness industry, and the rural support community, of which, the farmer plays such an important role.

Please study our following proposals in the areas of farm credit and finance, price and supply management, crop insurance, taxes, and soil and water conservation. Please bear in mind that the final 1985 Farm Bill should be for sufficient duration to enable adequate planning. Also, to provide reliable markets. Encourage the Family Farms as a Heritage that can be passed intact from parent to child. Reform farm credit to be responsive to the Family Farmers' needs; and enable them to produce at a profit, while conserving and protecting our soil and water resources.

Here is our List of Recommendations which We ask You to Act upon in any and all upcoming State and Federal Legislation.

CREDIT AND FINANCE

Probably the most immediate problem facing Carolina Farmers is that of credit and debt. According to USDA, South Carolina farmers saw a drop of 40% in net income and a trippling of production costs in the last ten years. In addition there have been such record breaking disasters, such as, drought, hurricane, and tornado. Many good farm managers find it impossible to meet loan payments and to secure necessary operating credit largely due to factors beyond their control. Several states have enacted a "temporary freeze" or moratorium to prevent the continued loss of family farms.

1. Please Support a Moratorium on Farm Foreclosures and forced Liquidations until profit returns to Family FARMing.

Under the present emergency situation, farmers find it difficult to repay loans and continue operating their farms. In South Carolina 50% of the FmHA borrowers were unable to make loan payments in 1984. Other lenders report similar difficulties for borrowers.

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PRICE AND SUPPLY

Price and supply are at the heart of any good farm bill. Family farmers will never recover from the present crisis unless they can receive a fair return on their investment and product.

4. Please Support Legislation designed to require a fair and sound floor price for each of the farm products, so the farmer can at least recover the cost of production, including enough income for a decent standard of living.

Current Agriculture Policy is forcing American Farmers to expand and overproduce. If Family Farm Agriculture is to survive and further concentration of food production is to be prevented, a clear program of supply management must be enacted.

5. Please Support mandatory limits on the amount of farm products produced by unit basis (bushels, tons, pounds) and base these limits on the actual need for these products.

SOIL AND WATER CONSERVATION

Strong soil and water conservation policies are urgently needed. Soil erosion is increasing at a rate 44% faster than the top soil can be replaced. But farmers caught in the present economic crisis are forced to use land to it's maximum in order to squeeze out a living.

6. Please Support conservation programs aimed at enabling Farmers to preserve soil and water resources. Specifically, Support reasonable incentives for farmers who participate in set-aside programs for fragile and marginal lands.

FEDERAL CROP INSURANCE

Federal Crop Insurance reform is needed in order for the program to be functional for family-sized farms. The present system encourages dishonesty, often does not cover the cost of production of lost crops, and frequently has premium costs that exceed the potential profit from the crop.

7. Please Support strict administration of F.C.I. by the ASCS on a non-profit basis aimed at payments which at least cover the costs of production and premiums that do not exceed the potential profit of the goods.

TAX SHELTERS

Tax Policy is one of the biggest single contributors to the problems of agriculture. Present policies make speculative investment in farming more profitable than actual business of farming. They encourage growth of huge absentee-owned farm operations, which squeeze out smaller, family owned and operated farms. Such corporations contribute to overproduction, low prices, and generally not concerned about proper land stewardship.

8. Please Support Tax reform WHICH will eliminate tax shelters that encourage speculative non-farmer investment in agriculture.

We look forward to discussing these issues with you, in depth, in the coming month.

Please strive to enact a law that will protect family farm agriculture and provide prosperity to our nation.

(Subsequent to the hearing on April 24, 1985, Senators Hawkins and Zorinsky submitted written questions to Mr. Wilkinson, Governor, Farm Credit Administration, the questions and answers thereto follow:)

QUESTIONS SUBMITTED BY SENATOR HAWKINS

Senator Hawkins. The Administration's bill moves away from the direct lending by the FmHA and towards guaranteed lending. Do you think the Farm Credit System and Commercial banks will work with FmHA to provide credit using these loan guarantees?

Mr. Wilkinson. The Farm Credit Administration recently sought and acquired approved lender status for Farm Credit System primary lending institutions indicating our interest in streamlining the guaranteed loan approval process. This step should help improve coordination between the FmHA and the Farm Credit System. We are hopeful that this change will encourage greater System participation in the debt adjustment program.

We shall continue to work with FmHA to eliminate other administrative barriers that have limited lender participation in the guaranteed loan program. One aspect of the program that could be considered a hindrance to participation is the requirement that the originating lender must complete the liquidation of a defaulting farmer's assets before FmHA reimburses the lender for the loss loan. This burdensome requirement has been prohibitive for many Farm Credit System associations.

Historically, commercial lender participation in the guaranteed operating loan program has never exceeded $1 billion in any fiscal year. Given that there is no precedent for a guaranteed loan program of the magnitude proposed by the Administration, and no indication of overwhelming commercial lender demand for an expanded program, it is difficult to forecast participation levels.

Senator Hawkins. Why is the FCA now requesting these additional authorities which it has never seen fit to request before?

Mr. Wilkinson. S. 466 rectifies a fundamental weakness in the Farm Credit Act: its failure to confer a full range of appropriate supervisory authorities. We did not request these authorities in the past because we believed our cooperative relationship with System institutions was sufficient to correct problems. It has become apparent in recent years that FCA can no longer be confident that timely corrective actions will be taken by System institutions upon notification by FCA that a particular practice should be discontinued, and today's economic environment makes timeliness an essential to survival. FCA's present authorities are better suited for a "program administrator." But times have changed; the Farm Credit System has matured. The new authorities we seek will formalize the appropriate arms-length relationship between FCA as regulator and System institutions as private lenders. The difficult economic conditions for the agricultural sector in general have placed great strains on the agricultural financial system, and in particular on the Farm Credit System.

These problems are more fundamental and more serious than those faced before. S. 466 provides the authorities required to meet the supervisory problems the agency faces today.

Senator Hawkins. Would these additional authorities assist existing borrowers on an immediate basis?

Mr. Wilkinson. The authorities in S. 466 are not designed to correct underlying economic problems or "immediately" restore the financial condition of a Farm Credit System institution. The authorities are, however, designed to permit FCA to require an institution to take measures to correct operating problems or violations of the law and regulations when the board and management are not responding. We believe these authorities would enable us to cause correction to take place more rapidly and thus benefit existing borrowers.

Senator Hawkins. I understand the agency is currently undergoing an extensive system-wide examination. Can you tell this committee how the examination is proceeding and what preliminary results you may have?

Mr. Wilkinson. The purpose of the extensive System-wide examination is to determine the possible financial condition of each component of the Farm Credit System over the next three years and the development of recommendations for programs to deal with these conditions. With respect to production credit associations (PCA), each district bank was supplied with defined underlying economic assumptions that were critical to the credibility of requested forecasts. Each district PCA was then modeled under a set of three possible economic scenarios to determine what its financial position might look like in the future. The entire balance sheet and income statement of each association is contained in each study. The results of all PCAs in each district and ultimately the Nation were than aggregated in an attempt to quantify possible risk exposure problems.

The study is being conducted as part of the FCA examination process and will be used internally as a means of identifying System strengths and weaknesses and designing appropriate System-wide and district-by-district solutions.

QUESTIONS SUBMITTED BY SENATOR ZORINSKY

Senator Zorinsky. If S. 466 had been enacted two or three years ago, would the Farm Credit Administration have been better equipped to protect borrowers in districts like Spokane and Omaha?

Mr. Wilkinson. If S. 466 had been enacted earlier, FCA would have been able to intervene so as to cause bank and association management and boards of directors to take action to correct operational deficiencies. In the absense of these authorities the FCA must rely merely on its ability to persuade bank management and/or boards of directors that deficiencies exist and of the most effective corrective actions which are revealed in the course of the bank examination process. Often this takes a substantial length of time and is largely ineffective in getting action soon enough to prevent crises. This method has not been and will not be satisfactory when safety and soundness issues or violations of law or regulations are involved. Enforcement powers are not a substitute for dialogue with the managements and boards regarding serious operational deficiencies. Only when those dialogues prove fruitless and/or swifter action is necessary will the FCA resort to use of enforcement powers.

Senator Zorinsky. Would the authorities provided under S. 466 help avoid similar problems in other districts in the future?

Mr. Wilkinson. These authorities would help avoid similar situations in other districts. S. 466 would permit FCA to focus directly on the problem area and obtain correction without traumatic intervention into the affairs of the institution. For example, if a Farm Credit System bank demonstrates an inability to direct and supervise the lending operations of an association in its district, S. 466 would permit FCA to focus directly on correcting this problem. Under present authorities, FCA may require that the bank submit all loans of a specified size or type for FCA approval prior to any commitment to the loan applicant. While this could assure a greater level of supervision over associations by substituting FCA's judgment for that of the institution, it would also result in significant intrusion of government into the institution's business decisions. It would also significantly delay service to borrowers. Under S. 466, FCA could issue a cease-and-desist order against an institution that has improperly lowered its loan eligibility standards.

Senator Zorinsky. In working with the FCA in developing S. 466, I wanted to include provisions giving the agency additional regulatory authorities--so called intermediate enforcement authority. The FCA recommended that a provision allowing the agency to require mergers be included in the legislation. For the record, please explain why the FCA views this authority as an intermediate enforcement authority and under what circumstances it would be invoked?

Mr. Wilkinson. FCA recommended that a provision be included in the bill which clarified and expanded the current authorities relating to the involuntary merger of the System institutions. Under existing provisions in the 1971 Act the Federal Farm Credit Board can require, with the concurrence of the district board, an association to merge when it has failed to meet its outstanding obligations or failed to conduct its operations in accordance with the Act. It is unclear whether the authority can be used to require the merger of two associations when only one of them has met the statutory criteria. In addition, the FCA believes that the requirement for district board concurrence may be problematic in certain circumstances where the district board does not recognize the need for corrective actions or where actions at the bank level may have contributed to the problem.

In order to address these concerns the FCA believes that the existing authority in the 1971 Act should be replaced with a new provision which removes the requirement for district board concurrence, expands coverage of the provision to include System banks, and clarifies the circumstances under which such mergers can take place. Provisions in S. 466 relating to merger provide that the Governor may require the merger of two or more institutions when one or more of such institutions is insolvent, is not financially viable, has failed to comply with the provisions of an order, has failed to conduct its operations in accordance with the Act, or when such merger would be in furtherance of more efficient and effective service to borrowers.

The enactment of this authority would provide FCA with an additional enforcement tool which can be used to correct deficiencies in the operations of System institutions. Under certain circumstances, the overall purposes of the Farm Credit Act might be better served through a mandatory merger of two System institutions, one of which has violated a cease-and-desist order, rather than through the use of the other enforcement tools in S. 466. Those circumstances may arise when the removal of personnel or the imposition of civil money penalties were not an effective way of developing the structural basis necessary for the delivery of cost effective farm credit services to borrowers in a territory.

Senator Zorinsky. Which of the authorities under S. 466 would have been used by the FCA to avoid or resolve the financial problems of the Spokane and Omaha districts?

Mr. Wilkinson. Your question does not have a simple response. First, the authorities requested in S. 466 would operate in a manner designed to give management and directors ample opportunity to correct problems without FCA intervention. They provide a procedure for FCA to force correction where the board and management are not responsive to initiating voluntary correction methods or where corrective actions taken are insufficient.

Second, except in cases involving fraud or a clear, imminent danger to a financial institution, the exercise of intermediate enforcement authorities is a tiered process. The agency first obtains, or attempts to obtain, a written agreement regarding the nature of the problem, the actions to be taken, the persons responsible for taking action, and the time frame within which correction must be obtained. If this does not result in correction of the problem, FCA can commence proceedings to obtain a cease-and-desist order to enjoin activities or to require the institution to take corrective action. A final cease-and-desist order can only be issued with the consent of the party or after a full administrative hearing. Final orders are also subject to judicial review. If a final cease-and-desist order is violated, the FCA would be able to seek a court injunction enforcing the order, imposing civil penalties, or removing responsible directors or employees.

As you can see, this process provides ample opportunity for the institution to correct its own problems before the agency uses more dramatic authority. The process also affords the institution and its directors and employees all appropriate due process protections.

In the cases of Spokane and Omaha, the problem was failure by the production credit associations to make loans in accordance with district credit policy and failure by the bank to supervise and assure sound lending operations. The intermediate enforcement authorities could have been applied to the associations to require compliance with district policy, and to the bank to require it to provide proper supervision.

Senator Zorinsky. Under what conditions would the FCA impose civil penalties as authorized under S. 466?

Mr. Wilkinson. We would employ civil penalties to enforce final cease-and-desist orders and to enforce compliance with law and regulation. For example, if a cease-and-desist order requires an institution of the Farm Credit System to perform or cease an activity by a specified date and the order was not complied with, a civil penalty proceeding would be one alternative to forcing compliance. The institution would be ordered to pay a penalty of so much for each day that it fails to perform the specified activity or for each day that the forbidden activity is not ceased. Requirements for notice, right of hearing, and appeal apply.

An example of using a money penalty to enforce compliance with a law or regulation without obtaining a cease-and-desist order as a prior condition would be failure to correct unsafe or unsound lending or credit administration policies and practices in an institution. Sound lending practices and procedures are critical to the success of an institution, but the Farm Credit Administration has no means at present of enforcing such requirements. A civil money penalty based on failure to correct unsafe and unsound lending practices would be an appropriate means of ensuring compliance with these requirements. The knowing violation of regulatory lending limits or conflict of interest prohibitions would be other examples in which such authorities could be exercised.

Senator Zorinsky. It appears that in most cases the authority to issue cease-and-desist orders is the basic provision of S. 466 that would be used to ensure sound management of Farm Credit System institutions. Do you agree with that statement and would it be useful to FCA to have that authority even if the other authorities provided under S. 466 were not enacted?

Mr. Wilkinson. The FCA believes that it needs all of the intermediate enforcement authorities which the other Federal bank regulatory agencies have. There is no basis to distinguish those agencies and their mission to assure the safety and soundness of banks and savings institutions from the basic mission or responsibilities of the FCA.

Clearly, cease-and-desist authority would enable FCA to act somewhat more effectively than it can now. However, orders are not always effective in correcting the more serious situations that expose institutions to the greatest risks. There must be negative incentives for compliance with cease-and-desist orders.

Removal and civil money penalty authorities are the means by which the FCA will be able to make cease-and-desist powers meaningful. The supervision by a Federal agency of financial institutions in order to correct identified unsafe and unsound practices follow an intentional pattern. Supervisory agreements are used to get management and director action on operating problems.

Cease-and-desist powers are used to get action where a supervisory agreement has not solved the problem. Removal and civil money penalty powers are necessary where cease-and-desist orders are not enough to solve a problem or where there is a continuous disregard for the applicable laws or regulations. Each power is a tool to be used where lesser powers prove inadequate for the particular case. Without all the necessary tools, the FCA cannot successfully assure fulfillment of its responsibilities to correct problems. The experience of the other Federal banking agencies has proven that cease-and-desist powers are not enough.

Persons against whom cease-and-desist orders have been issued usually comply with the order or challenge it by seeking judicial review. Valid orders are generally complied with because failure to comply can result in the imposition of civil money penalties. Cease-and-desist orders alone are not effective at getting prompt corrective and protective action.

In the mid-1970's, the other Federal financial regulators (Federal Reserve Board, Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and National Credit Union Administration) found that cease-and-desist powers were not adequate to protect depositors, stockholders, and the general public against serious risks and losses resulting from unsafe and unsound practices in our nation's banks and thrifts. As a result, Congress responded by enacting the Financial Institutions Regulatory and Interest Rate Control Act of 1978 which gave each of those agencies the additional powers to remove officers and directors and to impose civil money penalties.

The FCA believes a direct parallel can be drawn between its recent experiences and those faced in the past by the other Federal financial regulators. The FCA sees no reason why System stockholders and borrowers, the investors who last year bought approximately $100 billion of System Securities, or the general public deserve any less protection from risk and potential financial losses than customers and investors in our nation's commercial banks and savings institutions.

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